Annual Financial Report

for the year ended

June 30, 2007

Missouri Department of Transportation

Table of Contents

This page intentionally left blank

Independent Accountants' Report on Financial Statements and Supplementary Information

Missouri Highway and Transportation Commission
Missouri Department of Transportation
Jefferson City, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Missouri Department of Transportation (Department) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in *Note 1,* the financial statements of the Missouri Department of Transportation are intended to present the financial position, the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of Missouri that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Missouri as of June 30, 2007 and 2006, and the changes in its financial position and cash flows, where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Missouri Department of Transportation as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hammons Tower
901 E. St. Louis Street, Suite 1000
P.O. Box 1190
Springfield, MO 65801-1190
417.865.8701 Fax 417.865.0682
bkd.com

3230 Hammons Boulevard
P.O. Box 1824
Joplin, MO 64802-1824
417.624.1065 Fax 417.624.1431

1034 W. Main Street
P.O. Box 1277
Branson, MO 65615-1277
417.334.5165 Fax 417.334.4823

The accompanying management's discussion and analysis and budgetary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 27, 2007

Management's Discussion and Analysis

Management's Discussion and Analysis

The following section of our annual financial report presents our discussion and analysis of the Department's (or MoDOT) financial performance during the year. It is intended to assist you in understanding how the various statements relate to each other and provide an objective and easily readable analysis of the Department's financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the information presented in the Department's financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

Program revenues were approximately $1,228 million in 2007 and exceeded 2006 program revenues by $26 million, or 2.2 percent. Federal government revenues comprised 71.3 percent, or $876 million, of the total program revenue in 2007, an increase of $46 million over 2006 federal government revenues. Total revenues for 2007, $2,084 million, exceeded total 2006 revenues by $140 million, compared to an increase of $47 million in 2006 over 2005. For fiscal year 2007, the Department's program expenses exceeded program revenues by $794 million. Program expenses increased $200 million over 2006, with the construction program increasing 65.5 percent, or $108 million, from fiscal year 2006, compared to an increase of $82 million in 2006 over 2005. General revenues, generated primarily from various taxes, exceeded the net expenses of the program in both fiscal year 2007 and 2006.

Net Assets – The net assets of the Department at June 30, 2007, were $24.8 billion. After reducing the total amount by $24.1 billion for net investment in capital assets and certain restricted net assets, the resulting restricted net assets available for highways and transportation uses totaled $729 million. The net assets available for highways and transportation increased 113.8 percent from June 30, 2006, compared to a 4.3 percent increase at June 30, 2006 from 2005. Restricted net assets are dedicated for specific uses, including fund requirements, equipment purchase commitments and debt service, and are not available for current activities. The remaining restricted net assets are available for spending at the Department's discretion for highway and transportation purposes.

Changes in Net Assets – The Department's total net assets, all originating from governmental activities, increased by $62 million during the year ended June 30, 2007, compared to a $122 million increase during the year ended June 30, 2006.

Noncurrent Assets – As of June 30, 2007, the Department's noncurrent assets totaled $26.1 billion, of which 99.6 percent was related to capital assets. Noncurrent assets increased $374 million from 2006, with capital assets increasing $392 million. The Department's highway infrastructure and infrastructure in progress, including roads, bridges, interchanges, and related land, comprises $25.4 billion (97.7 percent) of the capital assets at June 30, 2007, an increase of $399 million from 2006. At June 30, 2006, these same capital assets comprised 97.7 percent of the capital assets, and had increased $503 million from 2005.

Noncurrent Liabilities – The Department's noncurrent liabilities increased $716 million from 2006, to a total of $1.9 billion at June 30, 2007. The Department issued $800 million of State Road bonds in August 2006 to finance projects. The Department also issued bonds in December 2006 to advance refund outstanding State Road bonds. The advance refunding reduced total debt service payments by $27.0 million, with a present value savings of $19.9 million. This compares to an increase in noncurrent liabilities of $241 million in 2006 from 2005, also related to bonds issued.

Fund Highlights

Governmental Funds – As of June 30, 2007, the Department's governmental funds reported a combined ending fund balance of $800.7 million, an increase of $375.8 million from the previous fiscal year. The total reserved fund balance at June 30, 2007 is $116.4 million, as compared to $116.6 million at June 30, 2006. Approximately $684.3 million (85.5 percent) is available unreserved fund balance for spending at the Department's discretion in accordance with the purpose of the funds, compared to $308.2 million (72.6 percent) in 2006.

Proprietary Funds – As of June 30, 2007, the Department's proprietary funds reported combined net assets of $30.7 million, an increase of $19.1 million from the previous fiscal year. After the total net assets are reduced by $0.3 million for restricted investments, the unrestricted net assets totaled $30.4 million at June 30, 2007, compared to $11.3 million at June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the section presenting the Department's basic financial statements, which includes three components: (1) ***government-wide financial statements,*** (2) ***fund financial statements***, and (3) ***notes to the financial statements***. This report also contains required supplementary information and combining financial statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the Department's finances. The statements provide both current and noncurrent information about the Department's financial status, which assist the reader in assessing the Department's economic condition at the end of the fiscal year. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which are similar to methods followed by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, even if the cash involved has not been received or paid. The government-wide financial statements include two statements: the Statements of Net Assets and the Statements of Activities. These statements take a much longer view of the Department's finances than do the fund-level statements.

- The *Statements of Net Assets* present all of the Department's assets and liabilities, except fiduciary funds, with the difference between the two reported as "net assets". Over time, increases or decreases in the net assets indicate whether the Department's financial health is improving or deteriorating, respectively. Fiduciary fund resources are not reported, as they are not available to support Department programs.

- The *Statements of Activities* present information showing how the Department's net assets changed during the fiscal year. The Department reports changes in net assets as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in the statements for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The Department's basic services are reported as governmental activities, including administration, fleet, facilities, and information systems, maintenance, construction, other modal systems, and other activities. Taxes, fees, and federal grants finance most of these activities.

Fund Financial Statements

Fund financial statements focus on individual parts of the Department, reporting the Department's major individual fund operations in more detail than the government-wide statements. Each fund is a group of related accounts that is used to maintain control over specific resources and is segregated for a particular purpose. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds. It is important to note these fund categories use different accounting approaches and should be interpreted differently.

- *Governmental Funds* – Most of the basic services provided by the Department are financed through governmental funds. Reporting focuses on how financial resources flow in and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. These statements provide a detailed short-term view of the Department's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Department. Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare these statements with the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund Balance Sheets and the governmental fund Statements of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate a comparison between governmental funds and governmental activities in the government-wide statements. These reconciliations are presented on the page immediately following the governmental fund financial statements. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land, buildings, and infrastructure, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

The Department reports three major governmental funds – the State Highways and Transportation Department Fund (Highway Fund), the State Road Fund (Road Fund), and the State Road Bond Fund. The Highway and Road funds are special revenue funds, used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Road Bond Fund is a debt service fund, which was constitutionally established to receive monies from the state's motor vehicle sales tax used to fund the repayment of bonds. Data from other funds are combined into a single, aggregated presentation as nonmajor governmental funds. Examples of the nonmajor funds include statutorily established funds for multimodal activities. Individual fund data for each of these nonmajor governmental funds is provided within combining financial statements following the Notes to the Financial Statements.

- *Proprietary Funds* – These funds are used to show activities that operate more like those found in the private sector. The Department charges customers for some of the services it provides – whether to outside customers, other agencies or to units within the Department. These funds, like the government-wide statements, use the accrual basis of accounting. The Department has two internal service funds to report activities for the Missouri Highways and Transportation Commission's (MHTC or Commission) Self-Insurance Plan and the Missouri Department of Transportation and Missouri State Highway Patrol (MSHP) Medical and Life Insurance Plan. Internal service fund activities are reported as governmental activities on the government-wide statements with eliminations made to remove the effect of the interfund activity.

- *Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Department's activities. These agency funds account for monies held on behalf of various political subdivisions and other interested parties.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which discuss particular accounts in more detail, can be found immediately following the fiduciary funds Statements of Net Assets.

Required Supplementary Information

A section of *Required Supplementary Information* follows the Notes to the Financial Statements. This section includes budgetary comparisons and a separate reconciliation between the fund balances for budgetary purposes and the fund balances for the major special revenue funds presented in the governmental fund financial statements. The Budgetary Comparison has been provided for the Department's two major special revenue funds to demonstrate compliance with this budget.

The legal authority for approval of the Department's budget and amendments for all funds, except the Road Fund, rests with the State Legislature. The authority for the Road Fund rests with the Commission.

Combining Statements

The *Combining Statements* section presents combining statements for nonmajor governmental funds, proprietary (internal service) funds, and fiduciary (agency) funds. Information for the nonmajor, internal service funds, and agency funds combinations are presented only in summary form in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a governmental entity's financial position. As presented in Table 1, total net assets of the Department on June 30, 2007 were $24.8 billion, an increase of $62 million over 2006. The largest component of the Department's total net assets, $24.0 billion, or approximately 96.8 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and other), less any related debt outstanding that was needed to acquire or construct the assets. The Department uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate the liabilities. As of June 30, 2006, total net assets were $24.7 billion, an increase of $122.0 million over 2005.

Restricted net assets, $60.0 million at 2007, 2006, and 2005, represent resources that are subject to restrictions, such as resources pledged to debt service. Restricted net assets, highways and transportation uses, increased 113.8 percent from 2006 to $729.0 million. This compares to an increase of $14 million, 4.3 percent, in 2006 from 2005. This balance may be used to meet the Department's ongoing obligations to citizens and creditors. Total assets increased 2.9 percent to $27.1 billion, and total liabilities increased 44.6 percent to $2.3 billion. In fiscal year 2006, total assets increased $428 million, 1.7 percent, to $26.3 million, and total liabilities increased $306 million, 24.2 percent, to $1.6 billion when compared to 2005. Total capital assets, net of depreciation, realized an increase of $392.0 million, or 1.5 percent in 2007, compared to an increase of $418.0 million, or 1.7 percent in 2006. Infrastructure projects, net of related depreciation, increased $312.0 million in 2007 compared to an increase of $351.0 million in 2006. Noncurrent liabilities increased $716.0 million, or 58.4 percent, over 2006 as a result of $800.0 million revenue bonds issued in August 2006. This is comparable to an increase of $241.0 million in 2006, or 24.4 percent, over 2005 as a result of revenue bonds issued in 2006. Table 1 presents condensed financial information derived from the Statements of Net Assets for the Department.

Table 1

Net Assets
June 30, 2007, 2006, and 2005
(amounts in millions)

	2007	2006	2005	Percent Change 2007-2006
Assets				
Current and other assets	$ 1,073	$ 703	$ 693	52.6%
Capital assets, net	26,001	25,609	25,191	1.5
Total assets	27,074	26,312	25,884	2.9
Liabilities				
Current liabilities	326	342	277	(4.7)
Noncurrent liabilities	1,943	1,227	986	58.4
Total liabilities	2,269	1,569	1,263	44.6
Net Assets				
Investment in capital assets net of related debt	24,016	24,342	24,234	(1.3)
Restricted (internal service fund requirements, equipment purchase commitments, debt service)	60	60	60	---
Restricted (highways and transportation uses)	729	341	327	113.8
Total net assets	$ 24,805	$ 24,743	$ 24,621	.3%

Changes in Net Assets

As depicted in Table 2, which presents condensed financial information derived from the Statements of Activities, of the Department's total 2007 expenses, $1,228 million (60.7 percent) was funded with program revenues (charges for services or program - specific grants and contributions), leaving $794 million to be funded with general revenues (mainly taxes). This compares to $1,202 million (66.0 percent) and $1,178 million (70.6 percent) funded with program revenues in 2006 and 2005, respectively, leaving $620 million and $562 million funded with general revenues in 2006 and 2005, respectively. General revenues totaled $856 million in 2007 compared to $742 million and $719 million in 2006 and 2005, respectively, resulting in a total net assets increase of $62 million, $122 million, and $157 million in 2007, 2006 and 2005, respectively.

Table 2

Changes in Net Assets
Years ended June 30, 2007, 2006 and 2005
(amounts in millions)

	2007	2006	2005	Percent Change 2007-2006
Revenues				
Program revenues				
Charges for services	$ 352	$ 372	$ 350	(5.4%)
Operating grants and contributions – federal government	79	62	57	27.4
Capital grants and contributions – federal government	797	768	771	3.8
General revenues				
Taxes	793	705	700	12.5
Investment earnings	49	24	5	104.2
Miscellaneous	14	13	14	7.7
Total revenues	2,084	1,944	1,897	7.2
Expenses				
Program expenses				
Administration	39	31	30	25.8
Fleet, facilities and information systems	55	53	56	3.8
Maintenance	379	362	375	4.7
Construction	273	165	210	65.5
Multimodal operations	71	61	53	16.4
Other state agencies	170	147	179	15.6
Self-insurance (workers' compensation and liability)	8	27	22	(70.4)
Medical and life insurance	102	93	82	9.7
Interest on debt	75	53	43	41.5
Depreciation on assets	850	830	690	2.4
Total expenses	2,022	1,822	1,740	11.0
Change in net assets	62	122	157	(49.2)
Net assets, beginning of year	24,743	24,621	24,464	.5
Net assets, end of year	$ 24,805	$ 24,743	$ 24,621	.3%

Governmental Activities

Total revenues increased 7.2 percent, approximately $140.0 million over 2006 revenues, to $2.1 billion. Federal government revenues, which represent the strongest source of program revenues, increased to $876.0 million, approximately $46.0 million over 2006. This compares to 2006 when total revenues increased $47.0 million over 2005, to $1.9 billion. Federal government revenues, which also represented the strongest source of program revenues in 2006, increased $2.0 million over 2005 to $830.0 million.

Increased taxes revenue, $88.0 million over 2006, was 62.9 percent of the total 2007 revenue increase. This compares to an increase of $5.0 million in 2006 over 2005. Sales and use tax and fees revenue increased $92.8 million as Amendment 3 provided additional revenues allocated to the Department, compared to a $1.0 million increase in 2006 over 2005. Although Amendment 3 provided an additional $30.2 million in 2006 to the newly established State Road Bond Fund, overall sales and use taxes decreased as the purchases of new and used vehicles decreased. In 2007 the economic impact of increased fuel costs resulted in a 1.0 percent, or $5.3 million, reduction in fuel taxes from 2006 compared to a $3.9 million increase in fuel taxes in 2006 from 2005. Increases of $25.0 million and $19.0 million in investment earnings were recognized in fiscal years 2007 and 2006 over 2006 and 2005, respectively, as a result of increased available funds from proprietary funds and bond proceeds.

The expenses of the Department totaled $2.0 billion for the year ended June 30, 2007, a $200.0 million increase from 2006. This compares to total expenses of $1.8 billion in 2006, an increase of $82 million over 2005. The $108.0 million increase in construction expenses in 2007 reflects the Department's emphasis on improvements, including non-capital improvements, of the state's infrastructure. In 2006, the $45 million decrease in construction expenditures was the result of increased capitalized infrastructure construction projects. The Department began the three year Smooth Roads Initiative program in January 2005 to improve the condition of 2,200 miles of the State's most heavily traveled roads by December 2007. These roads carry 60 percent of all traffic on the state highway system. Eighty-six percent of Missouri's population lives within a ten-mile radius of these roads. The Governor challenged MoDOT to complete the program in two years. The Department declared victory in November 2006, one year early.

Multimodal operations also increased $10.0 million, or 16.4 percent, from 2006, as additional federal funds were available for pass-through grant programs. In 2006, multimodal operations increased $8.0 million, or 15.1 percent, from 2005. As a result of additional bond issues, 2007 interest on debt increased $22.0 million, or 41.5 percent, over 2006 compared to a $10.0 million increase in 2006 over 2005. These bond payments are from Amendment 3 revenues. In 2007 self-insurance premiums decreased $19.0 million, or 70.4 percent, from 2006 due to the Department's aggressive approach to worker safety. The Department has worked to change the tasks that were causing the most employee injuries by either purchasing different types of equipment and supplies or modifying work process. Additionally, the general liability premiums have also been reduced. The premiums increased $5.0 million, or 22.7%, in 2006 over 2005.

Other state agencies expenditures increased by $23.0 million, or 15.6 percent, from 2006. Constitutional Amendment 3, approved by 79 percent of voters in November 2004, limits other state agencies' expenses to a 3 percent cost of collection by the Department of Revenue and enforcement of state motor vehicle laws or traffic regulations expended by the Missouri State Highway Patrol. In 2006, expenditures decreased $32.0 million from 2005. The percentage of total expenses for governmental activities and the percentage of total revenues by source are presented in Charts 1 and 2.

Chart 1

Expenses – Governmental Activities
Years ended June 30, 2007 and 2006
(as a percent)

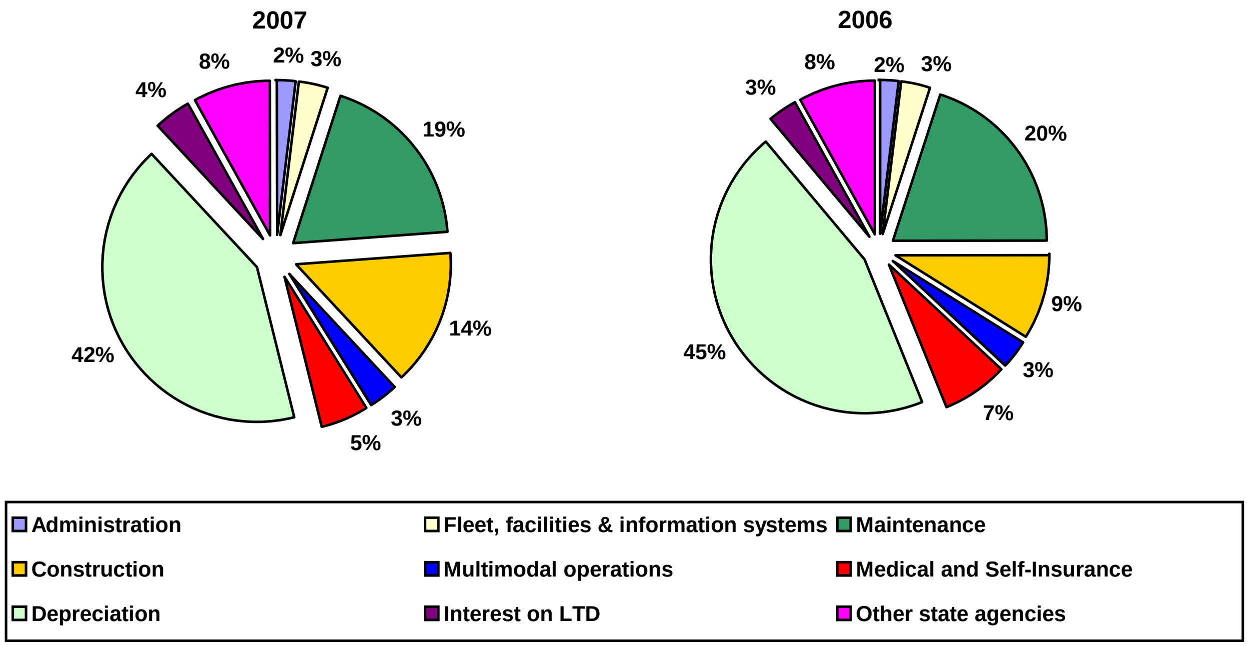
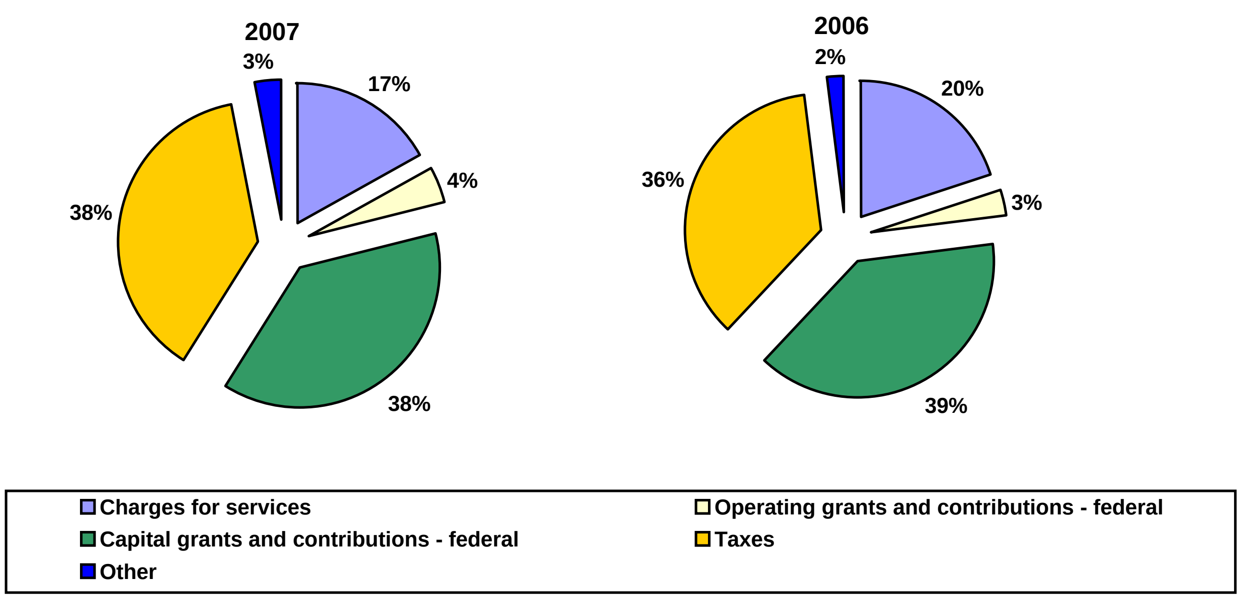


Chart 2

Revenues by Source – Governmental Activities
Years ended June 30, 2007 and 2006
(as a percent)



FUND FINANCIAL ANALYSIS

The financial position of the Department's governmental funds improved $375.8 million from 2006 compared to a decrease of $25.6 million in 2006 from 2005. The Department's spending related to maintenance and construction, including capital outlay expenditures, was approximately $130.3 million more than fiscal year 2006 compared to a $301.5 million increase in 2006 over 2005. Debt service expenditures also increased over 2006 by approximately $63.9 million compared to an increase in 2006 over 2005 of $30.5 million. The Department received proceeds from long-term bonded debt of $800.0 million in fiscal year 2007 and $350.7 million in fiscal year 2006. There were no bond proceeds in 2005. The Department also completed an advance refunding of $407.6 million of outstanding State Road bonds by issuing $394.9 million of bonds in 2007.

Governmental Funds

The Balance Sheets of the governmental funds reported $964.3 million in assets, an increase of $350.7 million over 2006. Liabilities total $163.6 million, a $25.2 million reduction from 2006. Fund balances are $800.7 million, an increase of $375.8 million from 2006. The largest changes were an increase of $366.6 million in cash and cash equivalents and a decrease of $20.6 million in payables. Within the 2007 total fund balances, $116.4 million has been set aside in reserves compared to $116.6 million at 2006. The reserved amounts are not available for new spending because they have been committed for equipment purchases ($0.0 million at 2007, $1.0 million at 2006), debt service ($74.1 million at 2007, $75.8 million at 2006), noncurrent loans receivable ($1.9 million at 2007, $2.1 million at 2006), and inventory ($40.4 million at 2007, $37.7 million at 2006). The 2007 balance of unreserved governmental funds, available for the general spending of the Department and debt service, was $684.3 million, a $376.0 million increase over the 2006 balance. Assets at June 30, 2006 were $2.3 million less than 2005, liabilities were $23.2 million greater than 2005, and fund balances were $25.5 million less than 2005.

The Statements of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows $2.1 billion in 2007 revenues, compared to $1.9 billion in 2006 and 2005; $2.5 billion in 2007 expenditures compared to $2.3 billion in 2006 and $2.0 billion in 2005; and a net $858.4 million in 2007 other financing sources compared to $394.5 million in 2006 and $79.3 million in 2005. The Department's major governmental funds, the Highway Fund, Road Fund, and State Road Bond Fund, ended the fiscal year with fund balances of $118.7, $634.2, and $20.0 million, respectively. The nonmajor governmental funds ended the year with a total fund balance of $27.8 million.

State Highways and Transportation Department Fund (Highway Fund): This fund is established by statute to receive revenues derived from the use of state highways. The fund pays the costs incurred to collect revenue received. As shown on the Balance Sheets, the fund ended the fiscal year with assets of $125.3 million, liabilities of $6.6 million, and an unreserved fund balance of $118.7 million. Amendment 3 included not only a change in revenue allocation, but also changed the Department's expenditure funding. As a result of Amendment 3, the Department's expenditures, with the exception of limited items, including Motor Carrier Services refunds, are paid from the Road Fund.

As shown on the Statements of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the Highway Fund had $718.5 million in revenues, a decrease of $8.5 million from 2006. In 2006, revenues were $7.3 million less than 2005. While sales and use taxes increased $19.6 million from 2006, fuel taxes and licenses, fees and permits decreased $38.8 million from 2006. This compares to a decrease of $8.5 million in sales and use taxes and a $2.0 million decrease in license, fees and permits, and an increase of $3.9 million in fuel taxes in 2006 from 2005. Intergovernmental/cost reimbursements/miscellaneous increased $9.1 million in 2007 compared to a $284.0 thousand decrease in 2006 from 2005. In 2007 the Missouri State Highway Patrol sold their Troop C Headquarters building and deposited the proceeds in the Highway Fund, which was then used to purchase land to build a new facility. Patrol assets are not reported as Departmental assets, therefore, this is not recognized as proceeds from the sale of capital assets.

Highway Fund expenditures by other state agencies totaled $189.3 million, an increase of $19.7 million over 2006. In 2006, expenditures by other state agencies decreased $25.0 million from 2005. Amendment 3, which changed funding for the administration of the Highways and Transportation Commission (Commission and Department of Transportation) from the Highway to the Road Fund, limits distributions to other state agencies to the Missouri State Highway Patrol and the Department of Revenue's cost of collection of Highway Fund revenues.

Other financing uses decreased $46.8 million to $523.7 million in 2007. State statute provides for fund transfers from the Highway Fund to the Road Fund for maintenance and construction purposes. The decrease reflects the actual cash available for transfer. In 2006, other financing uses increased $434.0 million from 2005. This is the result of Amendment 3 changes in funding in 2006 and the increased transfer of funds to the Road Fund.

State Road Fund (Road Fund): The Road Fund was constitutionally established to receive monies from the motor vehicle sales tax, the federal government, and other revenues not required to be in another fund. The fund pays to construct, improve and maintain the state highway system and to administer the Commission and the Department. The fund ended the fiscal year with assets of $782.8 million, an increase of $335.5 million from 2006; liabilities of $148.5 million, a decrease of $19.5 million from 2006; and fund balances of $634.2 million, an increase of $354.8 million from 2006.

This compares to a $21.0 thousand decrease in assets from 2005, a $23.8 million increase in liabilities from 2005, and a $23.8 million decrease in fund balances. Of the fund balance, $1.0 million and $25.7 million was reserved in 2006 and 2005, respectively, for equipment purchase commitments; $74.1 million, $75.8 million, and $76.0 million, in 2007, 2006, and 2005, respectively, for debt service; and $40.4 million, $37.7 million, and $35.1 million in 2007, 2006, and 2005, respectively, for inventories. The remaining $519.7 million, $164.8 million, and $166.5 million in 2007, 2006, and 2005, respectively, was available for spending for the general purposes of the fund. As a measure of the Road Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents 23.7 percent of total Road Fund expenditures at 2007 compared to 8.0 percent at 2006 and 12.3 percent at 2005, while total fund balance at June 30, 2007 represents 28.9 percent of the same amount, compared to 13.6 percent at 2006 and 22.4 percent at 2005.

Total expenditures in 2007 increased $142.3 million from 2006, to $2.2 billion. Construction expenditures increased $109.9 million, or 57.6 percent, to $300.6 million. Increased construction reflects the utilization of bond proceeds pursuant to the Department's Smoother, Safer, Sooner road and bridge program. Maintenance expenditures increased $17.9 million, or 4.7 percent, to $405.1 million. Capital outlay was $1.2 billion for 2007 compared to $1.3 billion in 2006. As previously noted, Amendment 3 changed funding for Department expenditures in 2006 from the Highway to the Road Fund. As a result of the funding change, total expenditures increased $699.4 million, 51.7 percent, over 2005 expenditures. Construction expenditures increased $37.7 million, maintenance increased $212.9 million, and capital outlay increased $376.3 million.

State Road Bond Fund: The State Road Bond Fund was constitutionally established to receive monies from the state's motor vehicle sales tax. Monies are used to fund the repayment of bonds issued by the Commission. The fund was established in fiscal year 2006 as a debt service fund. Total assets at June 30, 2007, were $20.0 million, an increase of $11.4 million. The fund balance of $20.0 million was unreserved. Sales and use tax revenues increased $39.7 million, to $69.9 million, as the sales tax distribution to the State Road Bond fund increased as provided by Amendment 3. Investment earnings totaled $.8 million, an increase of $.5 million from 2006. Expenditures of the State Road Bond Fund were $59.3 million, an increase of $37.3 million.

Proprietary Funds

Internal Service Funds: The Department's internal service funds consist of the MHTC Self-Insurance Fund (workers' compensation, fleet liability, and general liability) and the MoDOT and Missouri State Highway Patrol (MSHP) Medical and Life Insurance Plan (medical and life insurance fund). The self-insurance fund receives premiums from the Department for fleet and general liability claims and from the Department, MSHP, and MoDOT and Patrol Employees' Retirement System (MPERS) for workers' compensation claims. The Department, MSHP, MPERS, and employees of those agencies pay premiums to the medical and life insurance fund.

As shown on the Statements of Net Assets – Proprietary Funds, the total assets were $101.5 million, an increase of $16.8 million from 2006. Of this, current assets totaled $78.7 million, an increase of $32.2 million, and noncurrent assets totaled $22.8 million, a decrease of $15.4 million. Total assets increased $11.0 million in 2006 from 2005. This increase included an increase of $10.0 million current assets and $1.0 million noncurrent assets. The total liabilities of the proprietary funds at 2007 were $70.9 million, a decrease of $2.2 million from 2006. Pending self-insurance claims decreased $1.3 million, to $38.3 million, while incurred but not reported claims decreased $1.8 million, to $24.0 million. This is compared to a $10.1 million increase in 2006 from 2005, when pending self-insurance claims increased $9.7 million, to $39.7 million, incurred but not reported claims increased $.7 million and other current liabilities decreased $.3 million.

Total net assets of the internal service funds were $30.7 million as of June 30, 2007, an increase of $19.1 million from 2006. Total net assets consisted of $30.4 million unrestricted and $0.3 million restricted. An increase of $.9 million was recognized in 2006 from 2005.

As shown on the Statements of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds, the internal service funds operating revenues in 2007 increased $5.6 million from 2006, to $124.6 million, compared to a $12.5 million increase in 2006 from 2005. Operating expenses decreased $9.8 million during 2007 to $110.5 million, compared to a $15.8 million increase in 2006 from 2005. Revenues from investments totaled $5.0 million in 2007, an increase of $2.7 million, compared to a $.4 million increase in 2006 over 2005. The largest source of operating revenues is from premiums assessed to the Department, MSHP, and MPERS. Revenues derived from the State totaled $93.9 million (75.4 percent), an increase of $3.7 million from 2006, compared to a $10.6 million increase in 2006 from 2005.

The largest operating expenses, medical and prescription drug benefits, totaled $91.5 million, a $7.7 million, or 9.2 percent, increase from 2006. This accounts for 82.8 percent of the total operating expenses. This compares to a $9.8 million increase in 2006 from 2005, or 13.2 percent increase. In 2006, these benefits represented 69.7 percent of the total operating expenses. The largest fluctuations from fiscal year 2006 were in self-insurance fund expenditures. Workers' compensation expenses decreased $6.9 million from 2006 expenditures. This 75.8 percent decrease is the result of emphasis by the Department to ensure the safety of workers. Workers' compensation expenses decreased in 2006 from 2005 by $2.8 million. General liability expenditures decreased $12.7 million to $3.3 million (79.4 percent) in 2007 from 2006. House Bill 393, Tort Reform, reallocated the doctrine of joint and several liability. The new law became effective August 28, 2005. Prior to the August 28, 2005 effective date, an increased number of claims were filed against the Department. In 2006, general liability expenditures increased 111.3 percent, or $8.4 million, over 2005.

Fiduciary Funds

The Department has one type of fiduciary fund – agency funds. The agency funds are used to account for monies held on behalf of various political subdivisions and other interested parties. These funds act as clearing accounts and thus do not have net assets.

SIGNIFICANT EVENTS FOR THE YEAR ENDED JUNE 30, 2007

On July 11, 2006, the Commission authorized the issuance of up to $800.0 million in first lien state road bonds, consisting of $296.7 million Series A and $503.3 million Series B, with proceeds from the issuance of the bonds used to finance construction and reconstruction costs of the state highway system, pursuant to the Smoother, Safer, Sooner road and bridge program.

In August 2006, the Department sold the authorized bonds. The bonds bear interest payable semiannually, from 3.75 to 5.0 percent and are due in semiannual installments beginning November 1, 2006. The bonds are callable by the Department, subject to certain provisions. The bonds were issued with ratings of Aa1, AA+, and AA+ from Moody's Investors Services, Standard and Poor's Ratings Services and Fitch Ratings, respectively.

The Department's Smoother, Safer, Sooner construction initiative encompasses three steps. The steps include bringing the State's 2,200 most heavily-traveled highway miles up to good condition (called the Smooth Roads Initiative), accelerating existing projects in the five-year State Transportation Improvement Plan (STIP), and working with stakeholders to identify new high priority projects. After the Department's successful completion of the Smooth Roads Initiative, a new campaign, called Better Roads, Brighter Future, focuses on the rest of Missouri's 5,500 major highway miles.

In August 2005, the Federal Highway Act entitled Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was passed and signed into law by the President. This act provides federal funding through September 30, 2009.

The Department, like other entities, has been impacted by increased costs of petroleum products, cement and steel. The negative impact has affected daily operations, as well as costs of construction. In November 2004, the Department began utilizing practical design concepts as a tool to reduce construction project costs. Practical Design stresses designing projects to fit specific needs. This concept maximizes the value of a project through innovative design and right-sizing. The Department also utilizes Value Engineering, another innovative concept that encourages contractors to suggest solutions to the Department, with the contractor sharing in the cost savings. As a result of approaching projects using innovative concepts, 2007 awarded construction projects were 7.4 percent, or $89.8 million, under the STIP programmed amounts, while some other states experienced 20+ percent variances.

BUDGET HIGHLIGHTS

The Commission approves budget adjustments during the year. Cash receipts exceeded the final budget by approximately $35.6 million. Bond proceeds and intergovernmental/cost reimbursements exceeded the budget by $30.0 and $15.8 million, respectively. Federal reimbursements are subject to the Federal Transportation Appropriation process, as well as the timing of obligations and reimbursement of expenditures. Actual interest receipts exceed the budget by $17.8 million as cash balances increased and the market improved.

Total actual expenditures were $100.8 million less than the final budget. Contract expenditures account for $85.6 million of the variance, as a result of practical design. Right of Way payments are $6.1 million less than the final budget, due to the timing of acquisitions. Fleet, facilities, and information systems expenditures are $5.6 million less than the final budget. Information Systems implemented cost savings programs in some areas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Department's investment in capital assets for its governmental activities as of June 30, 2007, totals $46.1 billion, with accumulated depreciation of $20.1 billion, and a net value of $26.0 billion. The net value represents an increase of $400 million from fiscal year 2006. Depreciation charges totaled $850 million in fiscal year 2007. At June 30, 2006, the net value also represents an increase of $400 million from fiscal year 2005. These assets are summarized in Table 3 below. Additional information about the Department's capital assets is presented in the Notes to the Financial Statements.

Table 3

Capital Assets, Net of Depreciation
June 30, 2007, 2006 and 2005
(amounts in millions)

	2007	2006	2005	Percent Change 2007-2006
Land	$ 2,238	$ 2,151	$ 1,998	4.0%
Land improvements	7	8	6	(12.5)
Buildings	142	148	137	(4.1)
Equipment	121	114	114	6.1
Vehicles	72	78	68	(7.7)
Infrastructure	20,474	20,098	19,797	1.9
Construction in progress	213	214	323	(2.2)
Infrastructure in progress	2,734	2,798	2,748	(2.2)
Total	$ 26,001	$ 25,609	$ 25,191	1.5%

As provided by accounting principles generally accepted in the United States of America, the Department records its infrastructure assets at actual or estimated historical cost. Included in infrastructure are approximately 72,000 lane miles and 76.9 million square feet of bridge deck area that the Department is responsible for maintaining.

The Statewide Transportation Improvement Program (STIP), updated annually, sets the specific construction projects the Department will undertake in the next five years. It covers highways and bridges, transit, aviation, rail, waterways, enhancements and other projects. Adjustments are made during the life of the STIP based on needs.

Debt Administration

At June 30, 2007, the Department's total long-term obligations, excluding pending self-insurance claims and incurred but unreported claims, totaled $2.0 billion, an increase of $700 million from 2006. Of this amount, $1.8 billion (90.0 percent) represents transportation revenue bonds. Revenues collected under Article IV, Section 30(a) & (b) of the Missouri Constitution secure the bonds. These revenues are state highway users fees, including fuel taxes, sales and use taxes, and licenses and fees. June 30, 2006 long-term obligations increased $300 million from 2005, to a total of $1.3 billion. This increase is the result of increased transportation revenue bonds issued.

Table 4 presents a summary of the Department's long-term obligations for governmental activities. Additional information about the Department's long-term obligations is presented in the Notes to the Financial Statements.

Table 4

Long-term Obligations
June 30, 2007, 2006 and 2005
(amounts in millions)

	2007	2006	2005	Percent Change 2007-2006
Transportation revenue bonds	$ 1,834	$ 1,120	$ 829	63.8%
Premium on bonds and deferred refunding	68	37	20	83.8
Advances from other governments and State of Missouri component units	47	68	81	(30.9)
Capital leases obligations	35	43	53	(18.6)
Compensated absences	35	32	31	9.4
Other noncurrent liabilities	7	12	19	(41.7)
Total long-term obligations	2,026	1,312	1,033	54.4
Current portion of long-term obligations	121	125	81	(3.2)
Total noncurrent liabilities	$ 1,905	$ 1,187	$ 952	60.5%

Between 2000 and 2003, the Department issued revenue bonds referred to as the Senior Bonds. Senior bonds take priority in payment over other bonds. In 2005 and 2006, First Lien bonds were issued. Third Lien bonds were also issued in 2005. There were no Second Lien Bonds outstanding as of June 30, 2007. Bonds outstanding as of June 30, 2007 are scheduled to mature on various dates, but not later than fiscal year 2026. The bonds are obligations of the Road Fund and are not obligations of the State of Missouri. They were issued to finance projects in conformity with priorities established in the 1992 plan developed by the Department, to accelerate projects in the STIP, and to finance projects in the Department's Smoother, Safer, Sooner road and bridge program.

House Bill 1742, signed by the Governor on May 30, 2000, authorized the Department to issue bonds of $2.25 billion through 2006, with no more than $500 million issued in any one year. Under Constitutional Amendment 3, approved by Missouri voters on November 2, 2004, the authority of the Commission to issue State Road bonds is not subject to statutory provisions.

The advances from other government agencies and State of Missouri component units are related to construction projects accelerated to meet the needs of the users. With the exception of an advance from the Missouri Transportation Finance Corporation, all advances are interest free. Principal payments are due on various dates through fiscal year 2021.

The Department has entered into various capital lease obligations. The lease-purchase agreements provide a means of financing office and heavy equipment. In addition to equipment lease-purchase agreements, the Department entered into an agreement for an office facility to accommodate the consolidation of motor carrier services in fiscal year 2005. Capital lease payments mature on various dates through fiscal year 2016.

RECENT EVENTS AND FUTURE BUDGETS

Recent Events

On July 1, 2007, Department employees received a 3 percent, across-the-board, cost of living adjustment (COLA) to wages. The cost of salary increases is $8.2 million.

On August 8, 2007, the Commission authorized the issuance of up to $550.0 million in second lien state road bonds. Proceeds from the issuance of the bonds will be used to finance construction and reconstruction costs of the state highway system, pursuant to the Smoother, Safer, Sooner road and bridge program. In August 2007, the Department sold $526.8 million of the authorized bonds. The bonds bear interest payable semiannually, from 4.00 to 5.25 percent and are due in semiannual installments beginning May 1, 2009. The bonds are callable by the Department, subject to certain provisions. The bonds were issued with ratings of Aa2, AAA, and AA from Moody's Investors Services, Standard and Poor's Ratings Services and Fitch Ratings, respectively. In conjunction with the bond sale, the scheduled settlement of the interest rate swap entered into on August 2, 2006, resulted in a termination payment of $11.1 million.

Future Budgets

The Department's fiscal year 2008 budget for all funds was approved by the Legislature in May 2007 and signed into law by the Governor in June 2007. The fund level is the legal level of control for the Road Fund, with approval of the Road Fund budget by the Commission. The Commission approved the budget for all funds in June 2007.

The total spending plan adopted for the Department was $2.3 billion. Budgets for fiscal year 2008 include $432.1 million maintenance and $1.4 billion construction expenditures, including expenditures of a capital outlay nature, compared to actual spending of $413.7 million and $1.5 billion, respectively, in fiscal year 2007, as reflected in the Budgetary Comparison of the Road Fund. Additionally, budgeted fiscal year 2008 debt service expenditures for bond indebtedness for the Road and Road Bond Funds total $187.0 million, an increase of $90.9 million from fiscal year 2007 total bond indebtedness expenditures of $96.1 million.

The Department proposed and the Commission has approved three design-build projects. Design-build projects are another innovative concept utilizing the contractor for the design and construction of a project. All three projects: the New I-64, the kcICON, and the Safe and Sound Bridge Improvement Program are in various stages of planning, design and construction. The I-64 project was awarded in November 2006, with scheduled construction completion in July 2010. The final Request for Proposal was issued in September 2007 for the Safe and Sound Bridge Improvement Program, with an anticipated award in November 2007. The Safe and Sound Bridge Improvement Program was temporarily delayed until statutory changes were passed regarding performance bond requirements in a special legislative session held in August 2007. The kcICON project is in the design phase and the Department anticipates awarding the project in November 2007.

While SAFETEA-LU provides federal funding through September 30, 2009, the availability of funds from the Federal Trust Fund for future projects concerns Missouri and other states. The U.S. Department of Transportation is advising states that by October 2009 - for the first time ever - the Highway Trust Fund will have a deficit balance, forcing a substantial decrease in federal aid to state highway, bridge, and safety programs. In July 2007, the Commission approved a new five-year transportation construction program that shows spending for Missouri's roads and bridges will plummet in fiscal year 2010. The Statewide Transportation Improvement Plan (STIP) identifies transportation projects planned for fiscal years 2008 through 2012. Approximately $1.2 billion of highway construction is planned for 2008, largely due to additional funding from Amendment 3 bonds, however, the program decreases to basically a maintenance program totaling $569 million beginning in 2010. The legislative Joint Committee on Transportation Oversight and Missouri Transportation Development Council have had recent discussions regarding the future of transportation funding. Legislation proposing new sources for transportation funding was presented in the 2007 legislative session, without action by the Legislature.

CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Missouri Department of Transportation's interested parties, including citizens, taxpayers, customers, investors and creditors, with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to the Missouri Department of Transportation, Controller's Division, P.O. Box 270, Jefferson City, MO 65102. This report is also included in the Report to the Joint Committee on Transportation Oversight and is available on the Department's web site at www.modot.mo.gov after presentation to the Joint Committee.

This page intentionally left blank

Government-wide Financial Statements

Statements of Net Assets

June 30, 2007 and 2006

	Governmental Activities	
	2007	**2006**
Assets		
Current assets		
Cash and cash equivalents	$ 659,932,383	$ 293,441,430
Investments	72,031,691	41,806,820
State taxes and fees receivable	131,406,033	132,740,177
Loans receivable	444,777	421,158
Miscellaneous receivables, net	22,503,637	20,481,367
Federal government receivable	33,765,983	45,869,600
Prepaid expenses	116,999	---
Inventories	40,365,535	37,672,733
Total current assets	960,567,038	572,433,285
Noncurrent assets		
Investments	22,545,709	37,926,639
Restricted cash and investments	74,423,001	77,173,902
Loans receivable	1,423,137	1,713,872
Miscellaneous receivables, net	6,838,879	9,044,537
Bond issue costs, net	8,038,282	4,400,439
Capital assets		
Assets not being depreciated	5,184,794,360	5,163,033,343
Assets being depreciated, net	20,815,763,945	20,446,382,349
Total noncurrent assets	26,113,827,313	25,739,675,081
Total assets	27,074,394,351	26,312,108,366
Liabilities		
Current liabilities		
Accounts payable	115,000,259	134,585,499
Accrued payroll	23,067,587	21,724,334
Accrued interest payable	24,380,651	19,568,556
Unearned revenue	18,093,114	15,932,307
Pending self-insurance claims	10,138,000	10,779,000
Incurred but not reported claims	14,435,000	13,973,000
Financing and other obligations	121,346,461	125,312,872
Total current liabilities	326,461,072	341,875,568
Noncurrent liabilities		
Pending self-insurance claims	28,191,552	28,854,416
Incurred but not reported claims	9,550,000	11,811,130
Financing and other obligations	1,905,110,210	1,186,375,976
Total noncurrent liabilities	1,942,851,762	1,227,041,522
Total liabilities	2,269,312,834	1,568,917,090
Net Assets		
Invested in capital assets, net of related debt	24,016,416,907	24,341,909,274
Restricted for:		
Internal service fund requirements	300,000	300,000
Equipment purchase commitment	---	242,813
Debt service	59,156,978	59,630,169
Highways and transportation	729,207,632	341,109,020
Total net assets	$24,805,081,517	$24,743,191,276

The notes to the financial statements are an integral part of these statements.

Statements of Activities

Years Ended June 30, 2007 and 2006

	Governmental Activities	
	2007	**2006**
Transportation Program Expenses		
Administration	$ 38,886,575	$ 30,838,359
Fleet, facilities, and information systems	54,400,148	53,221,978
Maintenance	378,902,076	362,163,447
Construction	273,085,673	165,494,131
Multimodal operations	71,267,644	60,530,009
Interest	75,227,992	53,542,829
Other state agencies	169,905,570	146,969,066
Self-insurance	7,853,573	27,387,317
Medical and life insurance	102,641,800	92,951,721
Depreciation	849,956,691	829,556,033
Total transportation program expenses	2,022,127,742	1,822,654,890
Transportation Program Revenues		
Charges for services		
Licenses, fees, and permits	259,085,967	299,892,274
Intergovernmental/cost reimbursements/miscellaneous	67,758,770	46,089,480
Interest	56,806	75,823
Employee insurance premiums	25,368,868	26,216,354
Total charges for services	352,270,411	372,273,931
Federal government – operating	78,587,800	61,629,930
Federal government – capital	797,195,794	768,172,726
Total transportation program revenues	1,228,054,005	1,202,076,587
Net expense of transportation program	(794,073,737)	(620,578,303)
General Revenues		
Fuel taxes	517,647,640	522,895,958
Sales and use taxes and fees	275,259,312	182,464,857
Unrestricted investment earnings	49,299,540	24,451,817
State appropriations	12,282,754	11,452,521
Donated assets	441,168	4,200
Gain on sale of capital assets	1,033,564	1,435,744
Total general revenues	855,963,978	742,705,097
Change in Net Assets	61,890,241	122,126,794
Net Assets, beginning of year	24,743,191,276	24,621,064,482
Net Assets, end of year	$24,805,081,517	$24,743,191,276

The notes to the financial statements are an integral part of these statements.

This page intentionally left blank

Fund
Financial Statements

Balance Sheets

Governmental Funds

June 30, 2007 and 2006

	2007				
	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 18,109,965	$ 600,245,874	$ 11,651,988	$ 26,018,306	$ 656,026,133
State taxes and fees receivable	106,239,419	15,818,148	8,309,083	1,039,383	131,406,033
Miscellaneous receivables, net	935,383	25,288,346	88,576	413,638	26,725,943
Federal government receivable	---	26,872,221	---	6,893,762	33,765,983
Due from other funds	---	49,568	---	---	49,568
Loans receivable	---	---	---	1,867,914	1,867,914
Inventories	---	40,365,535	---	---	40,365,535
Restricted cash and investments	---	74,123,001	---	---	74,123,001
Total assets	$ 125,284,767	$ 782,762,693	$ 20,049,647	$ 36,233,003	$ 964,330,110
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 836,892	$ 103,971,218	$ 5,800	$ 8,120,810	$ 112,934,720
Accrued payroll	5,767,524	17,200,425	---	99,638	23,067,587
Deferred revenue	---	27,376,622	---	196,494	27,573,116
Due to other funds	---	---	---	49,568	49,568
Total liabilities	6,604,416	148,548,265	5,800	8,466,510	163,624,991
Fund balances					
Reserved for:					
Equipment purchase commitment	---	---	---	---	---
Debt service	---	74,123,001	---	---	74,123,001
Loans receivable	---	---	---	1,867,914	1,867,914
Inventories	---	40,365,535	---	---	40,365,535
Unreserved, debt service fund	---	---	20,043,847	---	20,043,847
Unreserved, special revenue funds	118,680,351	519,725,892	---	25,898,579	664,304,822
Total fund balances	118,680,351	634,214,428	20,043,847	27,766,493	800,705,119
Total liabilities and fund balances	$ 125,284,767	$ 782,762,693	$ 20,049,647	$ 36,233,003	$ 964,330,110

The notes to the financial statements are an integral part of these statements.

2006				
State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 11,479,891	$ 249,568,311	$ 4,417,187	$ 23,994,954	$ 289,460,343
109,294,906	17,484,639	4,141,642	1,818,990	132,740,177
176,670	28,596,516	18,739	94,572	28,886,497
---	37,101,270	---	8,768,330	45,869,600
---	49,368	---	---	49,368
---	---	---	2,135,030	2,135,030
---	37,672,733	---	---	37,672,733
---	76,873,902	---	---	76,873,902
$ 120,951,467	$ 447,346,739	$ 8,577,568	$ 36,811,876	$ 613,687,650
$ 2,903,165	$ 120,657,553	$ 600	$ 10,004,107	$ 133,565,425
4,909,383	16,722,845	---	92,106	21,724,334
---	30,584,608	---	2,841,496	33,426,104
---	---	---	49,368	49,368
7,812,548	167,965,006	600	12,987,077	188,765,231
---	1,047,858	---	---	1,047,858
---	75,826,044	---	---	75,826,044
---	---	---	2,135,030	2,135,030
---	37,672,733	---	---	37,672,733
---	---	8,576,968	---	8,576,968
113,138,919	164,835,098	---	21,689,769	299,663,786
113,138,919	279,381,733	8,576,968	23,824,799	424,922,419
$ 120,951,467	$ 447,346,739	$ 8,577,568	$ 36,811,876	$ 613,687,650

This page intentionally left blank

Reconciliation of the Governmental Funds Balance Sheets to the Statements of Net Assets

Governmental Funds

June 30, 2007 and 2006

	Total	
	2007	**2006**
Fund balances – total governmental funds	$ 800,705,119	$ 424,922,419
Amounts reported for governmental activities in the statements of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.	26,000,558,305	25,609,415,692
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	15,963,133	24,159,884
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in the statements of net assets.	30,653,997	11,550,246
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,042,799,037)	(1,326,856,965)
Total net assets – governmental activities	$24,805,081,517	$24,743,191,276

Statements of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Years Ended June 30, 2007 and 2006

	2007				
	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Fuel taxes	$ 517,241,382	$ 92,862	$ ---	$ 313,396	$ 517,647,640
Sales and use taxes	53,032,529	143,699,144	69,905,113	8,622,526	275,259,312
Licenses, fees and permits	134,373,207	122,069,683	---	2,643,077	259,085,967
Intergovernmental/cost reimbursements/misc.	9,706,480	78,037,073	---	2,253,235	89,996,788
Investment earnings	4,191,004	38,404,467	863,179	929,149	44,387,799
Federal government	---	797,195,794	---	80,598,970	877,794,764
Total revenues	718,544,602	1,179,499,023	70,768,292	95,360,353	2,064,172,270
Expenditures					
Current					
Administration	---	45,796,886	---	---	45,796,886
Fleet, facilities, and information systems	---	58,758,803	---	---	58,758,803
Maintenance	---	405,056,993	---	31,739,340	436,796,333
Construction	---	300,578,874	---	---	300,578,874
Multimodal operations	---	610,899	---	70,873,644	71,484,543
Capital outlay	---	1,247,361,664	---	941,995	1,248,303,659
Debt service	---	136,325,877	59,301,413	---	195,627,290
Other state agencies	189,323,736	---	---	85,402	189,409,138
Total expenditures	189,323,736	2,194,489,996	59,301,413	103,640,381	2,546,755,526
Excess of revenues over (under) expenditures	529,220,866	(1,014,990,973)	11,466,879	(8,280,028)	(482,583,256)
Other Financing Sources (Uses)					
Long-term debt issued	---	406,316	---	---	406,316
Proceeds from the issuance of bonds	---	800,000,000	---	---	800,000,000
Proceeds from the issuance of refunding bonds	---	394,870,000	---	---	394,870,000
Payment for refunding bonds	---	(432,407,879)	---	---	(432,407,879)
Premium on bonds	---	73,179,794	---	---	73,179,794
Net proceeds from capital leases	---	1,355,885	---	---	1,355,885
Proceeds from the sale of capital assets	---	8,675,118	---	3,968	8,679,086
Transfers in (out)	(523,679,434)	523,744,434	---	(65,000)	---
Transfers related to state appropriations	---	---	---	12,282,754	12,282,754
Total other financing sources (uses)	(523,679,434)	1,369,823,668	---	12,221,722	858,365,956
Net Changes in Fund Balances	5,541,432	354,832,695	11,466,879	3,941,694	375,782,700
Fund Balances, beginning of year	113,138,919	279,381,733	8,576,968	23,824,799	424,922,419
Fund Balances, end of year	$ 118,680,351	$ 634,214,428	$ 20,043,847	$ 27,766,493	$ 800,705,119

The notes to the financial statements are an integral part of these statements.

2006				
State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 522,466,684	$ 106,978	$ ---	$ 322,296	$ 522,895,958
33,440,318	109,364,007	30,237,443	9,423,089	182,464,857
167,873,076	129,511,785	---	2,507,413	299,892,274
665,339	50,737,247	1,112	2,248,577	53,652,275
2,526,678	18,833,408	344,684	551,246	22,256,016
---	766,161,556	---	61,629,930	827,791,486
726,972,095	1,074,714,981	30,583,239	76,682,551	1,908,952,866
---	42,843,184	---	---	42,843,184
---	68,752,527	---	---	68,752,527
---	387,192,838	---	24,654,287	411,847,125
---	190,712,514	---	---	190,712,514
---	225,367	---	60,450,818	60,676,185
---	1,252,772,238	---	53,160	1,252,825,398
---	109,688,915	22,006,271	---	131,695,186
169,646,887	---	---	78,758	169,725,645
169,646,887	2,052,187,583	22,006,271	85,237,023	2,329,077,764
557,325,208	(977,472,602)	8,576,968	(8,554,472)	(420,124,898)
---	1,787,376	---	---	1,787,376
---	350,660,000	---	---	350,660,000
---	---	---	---	---
---	---	---	---	---
---	21,335,742	---	---	21,335,742
---	2,644,156	---	---	2,644,156
22,061	6,633,945	---	12,950	6,668,956
(570,526,438)	570,591,864	---	(65,426)	---
---	---	---	11,452,521	11,452,521
(570,504,377)	953,653,083	---	11,400,045	394,548,751
(13,179,169)	(23,819,519)	8,576,968	2,845,573	(25,576,147)
126,318,088	303,201,252	---	20,979,226	450,498,566
$ 113,138,919	$ 279,381,733	$ 8,576,968	$ 23,824,799	$ 424,922,419

This page intentionally left blank

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities

Years Ended June 30, 2007 and 2006

	2007	2006
Net changes in fund balances – total governmental funds	$ 375,782,700	$ (25,576,147)
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. These are the amounts by which capital outlays exceeded depreciation.	398,788,135	423,273,565
In the statements of activities, only the gains on the sale of the capital assets are reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the changes in net assets differ from the changes in fund balances by the book value of the assets sold.	(7,645,522)	(5,233,211)
Revenues in the statements of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(8,196,751)	7,389,730
Proceeds from the issuance of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statements of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. These are the net effects of the differences in the treatment of long-term debt obligations and related items.	(731,774,266)	(289,855,431)
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	15,832,194	11,235,717
Internal service funds are used by management for the medical and life insurance plan and the self-insurance plan. The net revenues of internal service funds are reported with governmental activities.	19,103,751	892,571
Changes in net assets – governmental activities	$ 61,890,241	$ 122,126,794

Statements of Net Assets

Proprietary Funds

June 30, 2007 and 2006

	Internal Service Funds	
	2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 3,906,250	$ 3,981,087
Investments	72,031,691	41,806,820
Prepaid expenses	116,999	---
Miscellaneous receivables	2,616,571	639,407
Total current assets	78,671,511	46,427,314
Noncurrent assets		
Investments	22,545,709	37,926,639
Restricted investments	300,000	300,000
Total noncurrent assets	22,845,709	38,226,639
Total assets	101,517,220	84,653,953
Liabilities		
Current liabilities		
Accounts payable	2,065,539	1,020,074
Deferred revenue	6,483,132	6,666,087
Pending self-insurance claims	10,138,000	10,779,000
Incurred but not reported claims	14,435,000	13,973,000
Total current liabilities	33,121,671	32,438,161
Noncurrent liabilities		
Pending self-insurance claims	28,191,552	28,854,416
Incurred but not reported claims	9,550,000	11,811,130
Total noncurrent liabilities	37,741,552	40,665,546
Total liabilities	70,863,223	73,103,707
Net Assets		
Restricted net assets	300,000	300,000
Unrestricted net assets	30,353,997	11,250,246
Total net assets	$ 30,653,997	$ 11,550,246

The notes to the financial statements are an integral part of these statements.

Statements of Revenues, Expenses And Changes in Net Assets

Proprietary Funds

Years Ended June 30, 2007 and 2006

	Internal Service Funds	
	2007	2006
Operating Revenues		
Self-insurance premiums		
Highway workers' compensation	$ 11,959,200	$ 10,872,000
Highway patrol workers' compensation	3,000,000	6,948,238
Highway fleet vehicle liability	1,702,812	1,547,998
General liability	10,444,800	5,871,108
Medical insurance premiums		
State	66,774,196	64,990,190
Member	25,368,868	26,216,354
Other	5,380,702	2,514,097
Total operating revenues	124,630,578	118,959,985
Operating Expenses		
Self-insurance programs		
Highway workers' compensation	2,639,125	6,468,409
Highway patrol workers' compensation	(355,629)	2,588,673
Highway fleet vehicle liability	1,376,962	1,353,873
Highway general liability	3,341,786	16,007,810
Other	851,329	968,552
Medical and life insurance program		
Insurance premiums	6,836,963	5,434,594
Medical benefits	73,361,977	67,121,510
Prescription drug benefits	18,125,171	16,670,645
Professional fees	1,424,310	1,188,620
Administrative services	2,874,356	2,468,332
Other	19,023	68,020
Total operating expenses	110,495,373	120,339,038
Operating income (loss)	14,135,205	(1,379,053)
Nonoperating Revenues		
Net appreciation and investment income	4,968,546	2,271,624
Total nonoperating revenues	4,968,546	2,271,624
Change in Net Assets	19,103,751	892,571
Net Assets, beginning of year	11,550,246	10,657,675
Net Assets, end of year	$ 30,653,997	$ 11,550,246

The notes to the financial statements are an integral part of these statements.

Statements of Cash Flows

Proprietary Funds

Years Ended June 30, 2007 and 2006

	Internal Service Funds	
	2007	2006
Cash Flows From Operating Activities		
Receipts from interfund services provided	$ 123,054,610	$ 119,097,934
Payments for interfund services used	(108,612,304)	(105,316,311)
Payments to suppliers	(4,240,552)	(4,938,741)
Net cash provided by operating activities	10,201,754	8,842,882
Cash Flows From Investing Activities		
Proceeds from sale and maturities of investments	286,388,634	372,404,414
Purchase of investments	(299,629,609)	(402,949,247)
Interest received	3,058,057	1,936,522
Investment fees	(93,673)	(53,715)
Net cash (used in) investing activities	(10,276,591)	(28,662,026)
Net (decrease) in cash and cash equivalents	(74,837)	(19,819,144)
Cash and Cash Equivalents, Beginning of Year	3,981,087	23,800,231
Cash and Cash Equivalents, End of Year	$ 3,906,250	$ 3,981,087
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 14,135,205	$ (1,379,053)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Receivables	(1,575,968)	137,949
Prepaid expenses	(116,999)	---
Accounts payable	(2,057,529)	10,125,892
Deferred revenue	(182,955)	(41,906)
Net cash provided by operating activities	$ 10,201,754	$ 8,842,882
Noncash Items Impacting Recorded Assets		
Increase in fair value of investments	$ 1,599,059	$ 127,876

The notes to the financial statements are an integral part of these statements.

Statements of Assets and Liabilities

Fiduciary Funds

June 30, 2007 and 2006

	Agency Funds	
	2007	2006
Assets		
Cash and cash equivalents	$ 13,226,821	$ 1,465,443
Investments	19,675,200	16,192,547
Accounts receivable	---	2,730,924
Other	1,212,629	686,010
Total assets	$ 34,114,650	$ 21,074,924
Liabilities		
Due to other governments	$ 12,832,519	$ 11,645,683
Advances from other governments	21,282,131	9,429,241
Total liabilities	$ 34,114,650	$ 21,074,924

The notes to the financial statements are an integral part of these statements.

This page intentionally left blank

Notes to the Financial Statements

This page intentionally left blank

INDEX FOR THE NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2007 and 2006

Note 1: Summary of Significant Accounting Policies

The State Highway Department was created in 1913 to act as the agent of the State of Missouri (the State) for public roads. The State Highway Commission was created in 1921 with the passage of the Centennial Road Law and was charged with the administration of the network of connecting state highways, including their location, design, construction, and maintenance.

In 1979, the voters of the State passed a constitutional amendment merging the State Highway Department with the Department of Transportation. The resulting department was named the Missouri Highways and Transportation Department by statute. The constitutional amendment gave a newly created Highways and Transportation Commission (the MHTC or Commission) the authority over all state transportation programs and facilities. The Commission is a bipartisan body of six members appointed by the Governor with the consent of the Senate for a term of six years. In 1996, by legislative action, the Missouri Highways and Transportation Department became the Missouri Department of Transportation (MoDOT or Department).

In 2002, several programs from other state agencies were combined with MoDOT. This was the result of legislative action and the Governor's Executive Order, which created the "One-Stop Shop" for motor carrier services (MCS), railroad operators, and overdimension and overweight permitting. In 2003, by Governor's Executive Order, the Division of Highway Safety was transferred from the Department of Public Safety to MoDOT. This change was part of the Governor's Reorganization Plan of 2003, to merge both the Division of Highway Safety and MoDOT activities related to the state highway system and its safe operation. In 2006, the unit that audits motor carrier operators was transferred to MoDOT from the Department of Revenue. This unit is responsible for auditing International Fuel Tax Agreement tax returns and International Registration Plan applications.

(A) Financial Reporting Entity

Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, establishes the criteria to be used for defining primary governments, component units, and related organizations. The Department does not meet the GASB's criteria to be reported as its own primary government or other stand-alone government. It is part of the primary government of the State and, like other state agencies, is included in the financial statements of the State.

Certain legally separate organizations are involved in transportation-related projects, such as the Missouri Transportation Finance Corporation (MTFC) and other transportation corporations. Although these organizations cooperate with the Department to meet their objectives, they are not part of the Department's reporting entity, but are included in the financial statements of the State as blended or discreetly presented component units.

The State's Comprehensive Annual Financial Report may be obtained by writing to the State of Missouri, Office of Administration, Division of Accounting, P. O. Box 809, Jefferson City, MO 65102 or at www.oa.mo.gov/acct/.

(B) Government-wide and Fund Financial Statements

Government-wide Statements – The government-wide statements of net assets and statements of activities report the overall financial activities of the Department, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

The Department performs a single function – Transportation. The statements of activities demonstrate the degree to which the direct expenses of that function are offset by program revenues. Direct expenses are those that are clearly identifiable with the function. Program revenues include (a) charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of the program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Department's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department reports the following major governmental funds:

State Highways and Transportation Department Fund (Highway Fund) – This special revenue fund is established by Section 226.200, Revised Statutes of Missouri (RSMo). This fund receives revenues derived from the use of state highways. This fund pays the costs incurred to collect that revenue, to administer and enforce any state motor vehicle laws or traffic regulations and to provide other related functions.

State Road Fund (Road Fund) – This special revenue fund is constitutionally established to receive monies from the state's motor vehicle sales tax, the federal government, transfers from the Highway Fund, and any other revenues held by the Department not required to be in another fund. Disbursements consist of costs incurred to construct, improve, and maintain the state highway system and for debt service payments.

State Road Bond Fund – This debt service fund is constitutionally established to receive monies from the state's motor vehicle sales tax. Monies are used for the repayment of bonds issued by the Commission to fund the construction and reconstruction of the state highway system or for refunding bonds.

The Department reports the following additional fund types:

Internal Service Funds – These proprietary funds account for the financing of services provided to other funds within the Department and other participating agencies on a cost-reimbursement basis. These funds are used to account for medical and life insurance coverage and self-insurance activities. Department activity comprises the majority of these funds. These funds are included in the government-wide statements by eliminating off-setting revenues and expenses.

Agency Funds – These fiduciary funds account for monies held on behalf of various political subdivisions and other interested parties and will be used to reimburse the Department for expenditures incurred by the Department on behalf of the previously mentioned parties and to collect and administer registration, license fees, and fuel taxes payable to contiguous states, Canadian provinces, and to cities and counties. These funds are not included in the government-wide statements, because they are held on behalf of various political subdivisions and other interested parties.

(C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange include fuel taxes, sales and use taxes, Medicare Part D federal subsidy, grants, entitlements, and donations. On an accrual basis, revenues from fuel taxes and sales and use taxes are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenues from Medicare Part D, based on the current funding level from the federal government, are recognized in the fiscal year in which the revenue-generating transaction occurs. Because potential retroactive adjustments to the federal subsidy are not measurable, the revenue impact is recognized in the fiscal period in which an adjustment is made by the federal government. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department, consistent with the State of Missouri, considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are recorded as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The Department's operating revenues and expenses generally result from providing services in connection with the internal service funds' principal ongoing operations. The principal operating revenues are charges for insurance premiums. Operating expenses include self-insurance claims, benefits claims, insurance premiums and administrative expenses. Investment income is reported as nonoperating revenue.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

(D) Assets, Liabilities and Net Assets

Cash and Cash Equivalents

Cash and cash equivalents include cash and repurchase agreements, which are investments with original maturities of three months or less.

Inventories

Inventories, primarily consisting of maintenance and sign shop materials, are valued at cost using the weighted average method. Inventories are recorded in the governmental funds as expenditures when consumed rather than when purchased.

Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Interfund services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and as expenditures or expenses in purchaser funds.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Capital Assets

Capital assets, such as land, buildings, equipment, and infrastructure assets, are reported at cost (or estimated historical cost) as governmental activities in the government-wide financial statements. Infrastructure assets are those assets that are normally immovable and of value to the citizens of the State of Missouri, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The Department capitalizes assets with an expected useful life of more than one year with a cost of greater than $1,000 for equipment and $15,000 for buildings and land improvements. No dollar threshold is set for land and infrastructure. Donated capital assets are recorded at their fair market value at the date of the donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense, including amortization of leased capital assets, is recorded in the government-wide financial statements.

Capital assets, including infrastructure, are depreciated on the straight-line method over the asset's estimated useful life. There is no depreciation recorded for land, construction in progress, and infrastructure in progress. Generally, estimated useful lives are as follows:

Vehicles, machinery and equipment	1 to 20 years
Buildings and other improvements	10 to 50 years
Infrastructure	12 to 50 years

Deferred Revenue

The Department has recorded deferred revenue in the Road Fund relating to long-term cost reimbursement receivables and in nonmajor funds relating to local matches for pass-through funds. Deferred revenue in the internal service funds is employee medical insurance premiums received and held for the subsequent month's coverage. These amounts are reported as deferred because they are unearned as of year-end.

Compensated Absences

Under the terms of the Department's personnel policy, Department employees are granted 10 to 14 hours of annual leave per month. Additionally, certain employees can accrue a maximum of 240 hours of compensatory time for unpaid overtime. Employees have accrued annual leave and compensatory time available amounting to $34,843,085 as of June 30, 2007, and $31,838,878 as of June 30, 2006 that is recorded in the government-wide financial statements. Because employees are not paid for accumulated sick leave upon retirement or termination no liability has been recorded for accumulated sick leave.

Bond Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, bond premiums and discounts, including the deferred amount on refunding as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources and discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Reservations of Fund Balances

In the fund financial statements, governmental funds report reservations of fund balances to indicate that a portion of the fund balance is not available for appropriations or is restricted by law or contract for a specific purpose.

Net Assets

In the government-wide and proprietary fund financial statements, equity may be displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. This also includes unexpended bond or lease proceeds less the related outstanding liability.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The entire amount of restricted net assets at June 30, 2007 and June 30, 2006, $788,664,610 and $401,282,002, respectively, is restricted by enabling legislation.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses or expenditures and other changes in net assets or fund balances during the reporting period. Actual results could differ from those estimates.

Note 2: Deposits and Investments

Cash and investments include amounts held by the State Treasurer's Office as required by the state constitution for all state funds of the primary government. Interest income earned on cash and investments in the State Treasury is allocated to the funds based on the respective investment and cash balances. In addition, cash and investments also include funds held in depository banks, as allowed by state statute.

By policy, investments may include time deposits, linked deposits, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements and reverse repurchase agreements, and U.S. Treasury and federal agency securities. The Department's investments are reported at fair value. While the majority of the Department's investments are pooled in the State Treasury or with the Department of Revenue, a portion is held at banks outside those state agencies. At June 30, 2007 and 2006, the Department's portfolio of non-pooled funds had $114,447,780 and $96,125,094, respectively, of uninsured, unregistered investments, and $5,380,592 and $5,218,690, respectively, of repurchase agreements for which the securities are held by a financial institution's trust department in the Commission's or State's name.

Interest Rate Risk – The State Treasurer's Office minimizes the risk that the market value of investments will fall due to changes in general interest rates by maintaining an effective duration of less than 1.5 years and holding at least 40 percent of the portfolio's total market value in securities with a maturity of 12 months or less. The investment portfolio of non-pooled funds are structured so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Of the total non-pooled investments, $84,658,011 contains embedded options, meaning that the investments are callable or subject to prepayment. The effective maturities are disclosed based on assumptions provided by the Department's investment advisor.

Credit Risk – The State Treasurer's Office minimizes the risk of loss due to the failure of a security issuer or backer by pre-approving financial institutions, companies, brokers and dealers, and conducting regular credit monitoring and due diligence. The investment portfolio of non-pooled funds are limited to the safest types of securities, as described above. Both portfolios are diversified so that potential losses on individual securities will be minimized.

Concentration of Credit Risk – Investments are diversified and limits are set to minimize the risk of loss resulting from excess concentration into a specific maturity, issuer or class of security. The asset allocation is periodically reviewed by the State Treasurer and the Department's investment advisor. At June 30, 2007 and 2006, no investments in any one organization (other than those issued or sponsored by the U.S. Government and those in pooled investments) represented five percent of total investments.

At June 30, 2007, the Department's cash and investments consisted of the following:

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Internal Service Funds	Agency Funds
Cash and investments:						
Cash and investments pooled In the State Treasury	$ 18,109,965	$ 600,245,874	$ 11,651,988	$ 26,018,306	$ ---	$ ---
Cash deposited with banks	---	---	---	---	2,118	---
U.S. agency obligations	---	---	---	---	92,582,572	---
Commercial paper	---	---	---	---	1,980,470	---
U.S. Treasury obligations	---	---	---	---	9,538	---
Certificate of deposit	---	---	---	---	4,820	---
Repurchase agreements	---	---	---	---	3,904,132	---
	$ 18,109,965	$ 600,245,874	$ 11,651,988	$ 26,018,306	$ 98,483,650	$ ---
Restricted Assets:						
Cash and investments pooled in the State Treasury	$ ---	$ 74,123,001	$ ---	$ ---	$ ---	$ ---
Cash and investments pooled with the Mo. Dept. of Revenue	---	---	---	---	---	11,749,973
Cash deposited with banks	---	---	---	---	---	388
U.S. agency obligations	---	---	---	---	---	16,755,600
Commercial paper	---	---	---	---	---	2,919,600
U.S. Treasury obligations	---	---	---	---	200,000	---
Certificate of deposit	---	---	---	---	100,000	---
Repurchase agreements	---	---	---	---	---	1,476,460
	$ ---	$ 74,123,001	$ ---	$ ---	$ 300,000	$ 32,902,021

At June 30, 2006 the Department's cash and investments consisted of the following:

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Internal Service Funds	Agency Funds
Cash and investments:						
Cash and investments pooled In the State Treasury	$ 11,479,891	$ 249,568,311	$ 4,417,187	$ 23,994,954	$ ---	$ ---
Cash deposited with banks	---	---	---	---	4,151	---
U.S. agency obligations	---	---	---	---	79,732,547	---
Certificate of deposit	---	---	---	---	912	---
Repurchase agreements	---	---	---	---	3,976,936	---
	$ 11,479,891	$ 249,568,311	$ 4,417,187	$ 23,994,954	$ 83,714,546	$ ---
Restricted Assets:						
Cash and investments pooled in the State Treasury	$ ---	$ 75,826,044	$ ---	$ ---	$ ---	$ ---
Cash deposited with banks	---	1,047,858	---	---	---	223,689
U.S. agency obligations	---	---	---	---	---	16,192,547
U.S. Treasury obligations	---	---	---	---	200,000	---
Certificate of deposit	---	---	---	---	100,000	---
Repurchase agreements	---	---	---	---	---	1,241,754
	$ ---	$ 76,873,902	$ ---	$ ---	$ 300,000	$ 17,657,990

At June 30, 2007, the Department's investments had the following maturities:

Investment type	Fair Value	Investment maturities (in years) Less than 1	1	2	3 or more
Repurchase agreements	$ 5,380,592	$ 5,380,592	$ ---	$ ---	$ ---
Certificate of deposit	104,820	104,820	---	---	---
Commercial paper	4,900,070	4,900,070	---	---	---
U.S. Treasury securities	209,538	---	209,538	---	---
U.S. agency obligations	109,338,172	86,165,715	12,055,512	7,138,145	3,978,800
	$ 119,933,192	$ 96,551,197	$ 12,265,050	$ 7,138,145	$ 3,978,800

At June 30, 2006, the Department's investments had the following maturities:

Investment type	Fair Value	Investment maturities (in years) Less than 1	1	2	3 or more
Repurchase agreements	$ 5,218,690	$ 5,218,690	$ ---	$ ---	$ ---
Certificate of deposit	100,912	100,912	---	---	---
U.S. Treasury securities	207,333	207,333	---	---	---
U.S. agency securities	95,917,761	54,576,863	25,927,950	7,847,250	7,565,698
	$ 101,444,696	$ 60,103,798	$ 25,927,950	$ 7,847,250	$ 7,565,698

At June 30, 2007, the Department's investments were rated as shown below. This disclosure does not include repurchase agreements, pooled investments, or the certificate of deposit. At June 30, 2006, all participating investments were rated Aaa by Moody's Investors Services.

Investment Type	Moody's	Fair Value
U.S. agency obligations	Aaa	$ 106,684,962
U.S. agency obligations	not rated	2,653,210
U.S. Treasury obligations	Aaa	209,538
Commercial paper	Aa1	990,370
Commercial paper	Aa3	1,462,890
Commercial paper	Aaa	2,446,810
		$ 114,447,780

Note 3: Taxes

Tax revenues for the fiscal years 2007 and 2006 were as follows:

	State Highways and Transportation Dept. Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Total 2007
Fuel taxes	$ 517,241,382	$ 92,862	$ ---	$ 313,396	$ 517,647,640
Sales & use taxes	53,032,529	143,699,144	69,905,113	8,622,526	275,259,312
	$ 570,273,911	$ 143,792,006	$ 69,905,113	$ 8,935,922	$ 792,906,952

	State Highways and Transportation Dept. Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Total 2006
Fuel taxes	$ 522,466,684	$ 106,978	$ ---	$ 322,296	$ 522,895,958
Sales & use taxes	33,440,318	109,364,007	30,237,443	9,423,089	182,464,857
	$ 555,907,002	$ 109,470,985	$ 30,237,443	$ 9,745,385	$ 705,360,815

Taxes are remitted by the Missouri Department of Revenue to the Department subsequent to collection. The Department receives the following taxes:

- **Fuel tax** is paid on the sale of gasoline, aviation fuel used in propelling aircraft with reciprocating engines, and diesel fuel authorized by Sections 142.010 – 142.350; 155.080 and 155.090; and 142.362 – 142.621, RSMo, respectively. The tax rate on gasoline and diesel fuels is $0.17 per gallon. The Department receives 75 percent of the first $0.11 and 70 percent of the next $0.06. The remaining tax is distributed to cities and counties. In addition, the Department receives the entire tax on aviation fuel of $0.09 per gallon.

- **Sales and use taxes** are paid on the purchase of any new or used motor vehicle or trailer, on vehicles purchased out of state and titled in Missouri, or on the sale of a vehicle between individuals within Missouri. The taxes are authorized by Sections 144.070 and 144.440, RSMo. The general sales tax rate is 3 percent and Proposition C tax (Section 144.701, RSMo) is 1 percent, for a total of 4 percent. The Department received 56.250 percent of the sales tax in 2007 and 46.875 percent of the sales tax in 2006. The remainder is distributed to cities, counties, school districts, and the State's general revenue. The Department receives 100 percent of the 3 percent general use tax and 75 percent of the Proposition C use tax. The other 25 percent of the Proposition C use tax is distributed to cities and counties. In addition, the Department receives sales and use tax on aviation jet fuel, limited to a maximum of $6.0 million in each calendar year.

Note 4: Interfund Transactions

The Department is required by State statute (RSMo 226.200) to transfer any unspent monies in the Highway Fund to the State Road Fund on a monthly basis. Transfers for the years ended June 30, 2007 and June 30, 2006 were as follows:

	2007		2006	
	Transfers In	**Transfers Out**	**Transfers In**	**Transfers Out**
State Highways and Transportation Department Fund	$ 65,000	$ 523,744,434	$ 90,000	$ 570,616,438
State Road Fund	523,744,434	---	570,616,438	24,574
Nonmajor Funds	---	65,000	24,574	90,000
	$ 523,809,434	$ 523,809,434	$ 570,731,012	$ 570,731,012

The due to/from amounts in the Road Fund and non-major funds represent interfund services provided and used. Amounts due to/from as of June 30, 2007 and June 30, 2006 were as follows:

	2007		2006	
	Due To	**Due From**	**Due To**	**Due From**
Nonmajor Funds	---	49,568	---	49,368
State Road Fund	49,568	---	49,368	---
	$ 49,568	$ 49,568	$ 49,368	$ 49,368

Note 5: Receivables

Reimbursement receivables consist of billings to outside entities for repayment of expenditures incurred by MoDOT. Also included are miscellaneous receivables from contractors and others. Reimbursement receivables are shown net of an allowance for doubtful accounts of $1,193,920 and $961,609 at June 30, 2007 and 2006, respectively. The Department provides an allowance based upon a review of the outstanding receivables, historical collection information and existing economic conditions.

Contributions receivables consists of amounts due from participating employers and members in the Department's insurance and risk management plans. The federal government receivable represents funds to be received on federally participating projects. Loans receivable represent loans to cities and counties for nonhighway-related projects.

Receivables at June 30, 2007 for the government's individual major funds, nonmajor funds, and internal service funds were as follows:

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Internal Service Funds	Total	Due Within One Year
Taxes, licenses & fees	$ 106,239,419	$ 15,818,148	$ 8,309,083	$ 1,039,383	$ ---	$131,406,033	$ 131,406,033
Miscellaneous:							
Reimbursements	561,399	20,503,651	---	223,571	318,323	21,606,944	14,768,067
Interest	373,984	4,784,695	88,576	190,067	956,895	6,394,217	6,394,217
Contributions	---	---	---	---	1,341,353	1,341,353	1,341,353
Total miscellaneous	935,383	25,288,346	88,576	413,638	2,616,571	29,342,514	22,503,637
Federal government	---	26,872,221	---	6,893,762	---	33,765,983	33,765,983
Loans	---	---	---	1,867,914	---	1,867,914	444,777
	$ 107,174,802	$ 67,978,715	$ 8,397,659	$ 10,214,697	$ 2,616,571	$ 196,382,444	$ 188,120,430

Receivables at June 30, 2006 for the government's individual major funds, nonmajor funds, and internal service funds were as follows:

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Internal Service Funds	Total	Due Within One Year
Taxes, licenses & fees	$ 109,294,906	$ 17,484,639	$ 4,141,642	$ 1,818,990	$ ---	$ 132,740,177	$ 132,740,177
Miscellaneous:							
Reimbursements	---	27,126,231	---	523	70,796	27,197,550	18,153,013
Interest	176,670	1,470,285	18,739	94,049	555,699	2,315,442	2,315,442
Contributions	---	---	---	---	12,912	12,912	12,912
Total miscellaneous	176,670	28,596,516	18,739	94,572	639,407	29,525,904	20,481,367
Federal government	---	37,101,270	---	8,768,330	---	45,869,600	45,869,600
Loans	---	---	---	2,135,030	---	2,135,030	421,158
	$ 109,471,576	$ 83,182,425	$ 4,160,381	$ 12,816,922	$ 639,407	$ 210,270,711	$ 199,512,302

Note 6: Capital Assets

Changes in capital assets for the year ended June 30, 2007 are summarized below:

	Beginning Balance	Additions	Deletions/ Retirements	Transfers	Ending Balance
Nondepreciable capital assets					
Land	$ 2,151,083,075	$ 857,102	$ 3,635,891	$ 89,930,991	$ 2,238,235,277
Construction in progress	214,028,302	90,542,403	---	(91,999,018)	212,571,687
Infrastructure in progress	2,797,921,966	1,115,824,114	---	(1,179,758,684)	2,733,987,396
Total nondepreciable capital assets	5,163,033,343	1,207,223,619	3,635,891	(1,181,826,711)	5,184,794,360
Depreciable capital assets					
Land improvements	13,946,880	---	---	---	13,946,880
Buildings	211,766,972	---	2,149,869	2,068,027	211,685,130
Equipment	266,322,867	30,119,140	20,553,703	---	275,888,304
Vehicles	176,037,593	11,402,067	7,803,397	---	179,636,263
Infrastructure	39,108,600,990	---	36,878,361	1,179,758,684	40,251,481,313
Total depreciable capital assets	39,776,675,302	41,521,207	67,385,330	1,181,826,711	40,932,637,890
Accumulated depreciation					
Land improvements	6,497,451	470,805	---	---	6,968,256
Buildings	63,471,771	6,516,308	712,627	---	69,275,452
Equipment	150,999,364	22,511,721	18,423,217	---	155,087,868
Vehicles	98,401,532	16,585,237	7,361,494	---	107,625,275
Infrastructure	19,010,922,835	803,872,620	36,878,361	---	19,777,917,094
Total accumulated depreciation	19,330,292,953	849,956,691	63,375,699	---	20,116,873,945
Total depreciable capital assets, net	20,446,382,349	(808,435,484)	4,009,631	1,181,826,711	20,815,763,945
Total capital assets	$ 25,609,415,692	$ 398,788,135	$ 7,645,522	$ ---	$ 26,000,558,305

Changes in capital assets for the year ended June 30, 2006 are summarized below:

	Beginning Balance	Additions	Deletions/ Retirements	Transfers	Ending Balance
Nondepreciable capital assets					
Land	$ 1,997,678,629	$ 208,985	$ 2,130,679	$ 155,326,140	$ 2,151,083,075
Construction in progress	323,358,405	66,937,113	---	(176,267,216)	214,028,302
Infrastructure in progress	2,748,642,657	1,100,162,713	---	(1,050,883,404)	2,797,921,966
Total nondepreciable capital assets	5,069,679,691	1,167,308,811	2,130,679	(1,071,824,480)	5,163,033,343
Depreciable capital assets					
Land improvements	12,266,095	---	225,272	1,906,057	13,946,880
Buildings	196,069,217	113,978	3,451,242	19,035,019	211,766,972
Equipment	252,962,011	26,609,626	13,248,770	---	266,322,867
Vehicles	163,461,926	26,741,287	14,165,620	---	176,037,593
Infrastructure	38,064,362,859	32,055,896	38,701,169	1,050,883,404	39,108,600,990
Total depreciable capital assets	38,689,122,108	85,520,787	69,792,073	1,071,824,480	39,776,675,302
Accumulated depreciation					
Land improvements	6,200,680	458,603	161,832	---	6,497,451
Buildings	59,391,846	6,408,757	2,328,832	---	63,471,771
Equipment	139,248,159	23,926,973	12,175,768	---	150,999,364
Vehicles	95,246,138	16,477,334	13,321,940	---	98,401,532
Infrastructure	18,267,339,638	782,284,366	38,701,169	---	19,010,922,835
Total accumulated depreciation	18,567,426,461	829,556,033	66,689,541	---	19,330,292,953
Total depreciable capital assets, net	20,121,695,647	(744,035,246)	3,102,532	1,071,824,480	20,446,382,349
Total capital assets	$ 25,191,375,338	$ 423,273,565	$ 5,233,211	$ ---	$ 25,609,415,692

Note 7: Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2007 were as follows:

Type of Issue	Beginning Balance	Additions	Reductions	Discount Accreted	Ending Balance	Due Within One Year
State road bonds	$ 1,119,885,000	$1,194,870,000	$ 480,960,000	$ ---	$ 1,833,795,000	$ 69,105,000
Advances from other governments	12,717,163	406,317	200,000	---	12,923,480	193,785
Advances from State of Missouri component units	40,659,294	---	22,444,486	314,936	18,529,744	6,708,881
Federal Highway Administration loan	15,000,000	---	---	---	15,000,000	2,827,900
Capital leases	43,504,799	1,355,886	9,635,992	---	35,224,693	8,337,990
Claims and judgments payable	11,538,508	3,853,662	7,919,983	---	7,472,187	7,304,187
Compensated absences	31,838,878	29,872,925	26,868,718	---	34,843,085	26,868,718
	$ 1,275,143,642	$1,230,358,790	$ 548,029,179	$ 314,936	$ 1,957,788,189	$ 121,346,461
Adjustments for bond activity:						
Unamortized deferred refunding difference					(23,616,288)	
Unamortized premium					92,284,770	
					$ 2,026,456,671	

Changes in long-term obligations for the year ended June 30, 2006 were as follows:

Type of Issue	Beginning Balance	Additions	Reductions	Discount Accreted	Ending Balance	Due Within One Year
State road bonds	$ 828,500,000	$ 350,660,000	$ 59,275,000	$ ---	$ 1,119,885,000	$ 73,350,000
Advances from other governments	12,346,457	370,706	---	---	12,717,163	200,000
Advances from State of Missouri component units	53,483,318	1,416,670	14,643,811	403,117	40,659,294	16,336,809
Federal Highway Administration loan	15,000,000	---	---	---	15,000,000	---
Capital leases	53,513,675	2,644,156	12,653,032	---	43,504,799	9,462,565
Claims and judgments payable	19,282,740	12,243	7,756,475	---	11,538,508	2,017,296
Compensated absences	31,096,819	24,688,261	23,946,202	---	31,838,878	23,946,202
	$ 1,013,223,009	$ 379,792,036	$ 118,274,520	$ 403,117	$ 1,275,143,642	$ 125,312,872
Unamortized premium					36,545,206	
					$ 1,311,688,848	

Payments on state road bonds are made from the Road Fund and the Road Bond Fund. Compensated absences are liquidated by the governmental funds from which the related salaries are paid. All other long-term obligation payments are made from the Road Fund.

The detail of long-term debt is as follows:

State road bonds:	2007	2006
Series A 2000 State Road bonds to accelerate projects in the Department's five-year plan due in annual installments of $6,610,000 to $20,315,000 beginning February 1, 2002; interest varying from 4.30 percent to 5.63 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	$ 60,525,000	$ 206,805,000
Series A 2001 State Road bonds to finance projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual Installments of $7,110,000 to $15,605,000 beginning February 1, 2003; interest Varying from 2.25 percent to 5.125 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	57,275,000	170,365,000

Series A 2002 State Road bonds to finance projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of $7,435,000 to $15,830,000 beginning February 1, 2004; interest varying from 3.00 percent to 5.25 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	62,865,000	180,115,000
Series A 2003 State Road bonds to finance projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of $8,125,000 to $18,910,000 beginning February 1, 2005; interest varying from 2.00 percent to 5.00 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	168,045,000	235,775,000
Series 2006 Refunding State Road bonds to advance refund certain portions of Series 2000 through 2003 State Road bonds; due in annual installments of $13,110,000 to $61,200,000 beginning February 1, 2013; interest varying from 4.00 percent to 5.00 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	394,870,000	---
Series A 2005 State Road bonds to finance projects pursuant to the Smoother, Safer, Sooner road and bridge program, due in annual installments of $23,835,000 to $33,940,000 beginning May 1, 2006; interest varying from 2.50 percent to 5.00 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	231,295,000	254,825,000
Series B 2005 State Road bonds to finance projects pursuant to the Smoother, Safer, Sooner road and bridge program, due in 2015; variable interest rate determined weekly, not to exceed 10 percent or the maximum rate permitted by law; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	58,920,000	72,000,000
Series A 2006 State Road bonds to finance projects pursuant to the Smoother, Safer, Sooner road and bridge program; due in annual installments of $10,000,000 to $49,085,000; interest varying from 3.75 percent to 5.00 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	296,670,000	---
Series B 2006 State Road bonds to finance projects pursuant to the Smoother, Safer, Sooner road and bridge program due in annual installments of $67,735,000 to $121,210,000; interest varying from 4.50 percent to 5.00 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	503,330,000	---
	$1,833,795,000	$1,119,885,000

The Series 2000, 2001, 2002, and 2003 bonds are Senior Bonds and would take priority in payment over other bonds. The Series A 2005 and Series A and B 2006 bonds are First Lien bonds. The Series B 2005 bonds are Third Lien bonds. At June 30, 2007 and 2006, there were no Second Lien bonds.

- Variable Rate Demand Bonds

  The Series B 2005 State Road bonds were issued as variable rate instruments with weekly rate changes. The remarketing agents determine the interest rate as the lowest rate that will permit the bonds to be sold at par. During the year, interest rates ranged from 3.35 percent to 3.92 percent. Accrued interest is paid on a monthly basis. These bonds are demand obligations and are subject to tender. If the tendered bonds cannot be remarketed, the remarketing agents have agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2007, all bonds tendered have been remarketed within 180 days. The remarketing agents receive quarterly fees of 7.5 basis points of amounts outstanding to provide the service.

  Under an irrevocable letter of credit issued by State Street Bank and Trust Company, the bank is obligated to pay the bond trustee the purchase price of bonds not remarketed. The letter of credit expires July 21, 2012. As of June 30, 2007, no amounts have been drawn on the letter of credit.

If monies are drawn on the letter of credit, the Commission may pay the purchase price of the bonds or obtain a liquidity advance, payable 60 days following the advance, with interest at the federal funds rate plus 0.5 percent. The Commission may enter into a term loan of up to three years bearing interest at a rate equal to the federal funds rate plus 1.5 percent. If the term loan were to be utilized because the outstanding amount of $58,920,000 was not resold, the Commission would be required to pay approximately $11,011,000 semi-annually for 3 years, assuming a 6.75 percent interest rate. The Department pays quarterly fees of 17 basis points to the bank.

- Advanced Refunding Bonds

  In December 2006, the Commission issued $394.9 million in State Road Bonds with interest ranging from 4.00 percent to 5.00 percent to advance refund $407.6 million of outstanding State Road Bonds. The net proceeds of $432.4 million plus an additional $7.7 million of State Road Fund monies were deposited into an irrevocable trust with an escrow agent to purchase State and Local Government Securities (SLGS) to provide for future debt service payments of portions of Series 2000 through 2003 bonds. As a result, those portions of the bonds are considered to be defeased and the liability for those bonds has been removed from the Department's government-wide statements of net assets.

  The reacquisition price ($440.1 million) exceeded the net carrying amount of the old debt ($414.5 million) by $25.6 million. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt, which is shorter than the life of the refunded debt.

  This advance refunding was undertaken to reduce total debt service payments by $27.0 million and resulted in an economic gain (present value savings) of $19.9 million.

Advances from other governments:	**2007**	**2006**
County of St. Charles to provide for a location, needs and cost study of a river crossing on Highway 40 between St. Louis County and St. Charles County; principal due on July 1, 2020; no interest will accrue.	$ 644,498	$ 644,498
County of St. Charles for the final design of Route 364, from west of Harvester Road to west of Central School Road; principal due on July 1, 2008; no interest will accrue.	800,000	800,000
City of O'Fallon to accelerate a portion of the Route 364 (Page Avenue Extension) project, which consists of constructing a south outer road parallel to Route N between Winghaven Blvd. to Missouri Route K; principal due July 1, 2015; no interest will accrue.	8,835,335	8,835,335
City of Monett to make improvements to Route 60 in Barry County from 1.2 miles east of Route 37 to 1.8 miles east of Route 37; principal due in 2010; no interest will accrue.	1,120,692	1,120,692
City of O'Fallon to extend Bryan Road from Feise Road to Route N across the Route 364 (Page Avenue Extension) right of way; principal due on December 31, 2008; no interest will accrue.	790,000	790,000
City of Jackson to make improvements to Routes I-55 and 61/34 in Cape Girardeau County; principal due November 12, 2006; no interest will accrue.	---	200,000
County of Taney to install traffic signals on Route 65; principal due after July 31, 2007; no interest will accrue.	193,785	126,638
County of St. Charles to make improvements to Routes I-70 and K; principal due July 1, 2009; no interest will accrue.	200,000	200,000
City of Joplin to make improvements to the intersection of Route FF, Route 43, and 32nd Street; principal due August 31, 2008 and 2009; no interest will accrue.	97,143	---
Ozarks Technical Community College to make improvements to Route 14; principal due September 1, 2008; no interest will accrue.	242,027	---
	$ 12,923,480	$ 12,717,163

Advances from State of Missouri component units:	**2007**	**2006**
Highway 179 Transportation Corporation for the construction of Highway 179; principal payments due yearly through August 1, 2008; principal payments range from $2,140,734 to $3,784,974.	$ 6,923,855	$ 9,870,852
210 Highway Transportation Development District for the widening of 210 Highway; principal payments will occur yearly on July 1, through 2008; principal payments range from $965,504 to $2,375,000; no interest will accrue.	4,247,686	6,622,686
Fulton 54 Transportation Corporation for the right of way acquisition and utility adjustments for Route 54 and HH interchange; principal payments will occur yearly on September 1, through 2007; no interest will accrue.	1,200,000	3,365,000
Wentzville Parkway Transportation Corporation for the expansion and reconstruction of the I-70 interchange and Wentzville Parkway; principal payment due July 1, 2006; no interest will accrue.	---	8,849,811
Missouri Transportation Finance Corporation for right of way and construction-related cost for two additional lanes on Highway 63; principal and interest payments will occur yearly on July 1, through 2010; the interest rate is 3.232 percent.	6,158,203	11,950,945
	$ 18,529,744	$ 40,659,294
Federal loan:		
Federal Highway Administration loan; for the extension of Page Avenue in St. Charles; principal payment due beginning fiscal year 2008 through project completion; no interest will accrue.	$ 15,000,000	$ 15,000,000

Annual debt service requirements to maturity are indicated in the following schedule. The interest amounts for the demand obligation bonds reflect the year-end rate of 3.70 percent and are based upon the current debt service schedule.

Fiscal Year	**Principal Due**	**Interest Due**	**Total Due**
State Road Bonds			
2008	$ 69,105,000	$ 88,501,765	$ 157,606,765
2009	81,920,000	85,415,235	167,335,235
2010	90,020,000	81,678,532	171,698,532
2011	98,380,000	77,494,915	175,874,915
2012	101,950,000	72,775,399	174,725,399
2013-2017	482,105,000	290,286,020	772,391,020
2018-2022	455,810,000	182,500,015	638,310,015
2023-2026	454,505,000	57,725,038	512,230,038
	$ 1,833,795,000	$ 936,376,919	$ 2,770,171,919
Advances from other governments			
2008	$ 193,785	$ ---	$ 193,785
2009	1,929,171	---	1,929,171
2010	1,320,692	---	1,320,692
2011	---	---	---
2012	---	---	---
2013-2017	8,835,335	---	8,835,335
2018-2021	644,497	---	644,497
	$ 12,923,480	$ 0	$ 12,923,480
Advances from State of Missouri component units			
2008	$ 6,708,881	$ 220,910	$ 6,929,791
2009	11,653,942	319,826	11,973,768
2010	166,921	5,396	172,317
	$ 18,529,744	$ 546,132	$ 19,075,876
Federal Loan			
2008	$ 2,827,900	$ ---	$ 2,827,900
2011	12,172,100	---	12,172,100
	$ 15,000,000	$ 0	$ 15,000,000

House Bill 1742, signed by the Governor on May 30, 2000, authorized the Department to issue bonds of $2.25 billion through 2006, with no more than $500 million issued in any one year. Under Constitutional Amendment 3, approved by Missouri voters on November 2, 2004, the authority of the Commission to issue State Road bonds is not subject to statutory provisions.

On December 15, 2003, the Commission entered into a line-of-credit with the MTFC. The maximum amount available in the line-of-credit is the total uncommitted balance of the MTFC accounts. The primary purpose of the loan is to finance federally funded construction projects in the event of federal reimbursement delays for Road Fund projects. The Commission will make a lump-sum payment of principal and interest three months after the loan is advanced. At June 30, 2007 and 2006, no advances had been made to MoDOT on the line-of-credit agreement.

Capital lease obligations:

The Department is committed under several capital leases to finance the acquisition of various vehicles and equipment, as well as a building. Lease-purchase agreements for equipment, vehicles and the building grant a security interest in the related capital assets. The assets acquired through these capital leases are included in capital assets as follows:

	2007	2006
Building	$ 3,996,000	$ 3,996,000
Equipment	6,941,221	9,378,868
Vehicles	36,145,881	32,384,393
Total capital leased assets	47,083,102	45,759,261
Accumulated depreciation	10,175,859	5,621,999
Capital leased assets, net	$ 36,907,243	$ 40,137,262

The following schedule presents the future minimum lease payments under the capital leases and the present value of the future minimum lease payments as of June 30, 2007:

2008	$ 9,837,503
2009	9,341,441
2010	8,947,880
2011	8,423,864
2012	401,301
2013-2016	2,937,000
Total minimum lease payments	39,888,989
Less: amount representing interest	4,664,296
Present value of minimum lease payments	$ 35,224,693

Note 8: Derivative Instrument

On August 2, 2006, the Commission entered into an interest rate swap agreement in anticipation of issuing up to $400 million in state road bonds in September 2007. The competitively-bid transaction consisted of a $400 million forward (delayed) start floating-to-fixed interest rate swap whereby the Department would pay the counterparties a fixed all-in rate of 4.2121% and would receive the SIFMA Index (formerly BMA Municipal Swap Index). The swap had a mandatory early termination date for cash settlement on September 4, 2007. MoDOT intended to issue fixed-rate bonds (rather than synthetic fixed rate) simultaneous with the termination of the swap. Depending on the level of swap rates at that time, MoDOT would either pay (if the comparable maturity SIFMA swap rate was below 4.2121%) or receive (if the comparable maturity swap rate was above 4.2121%) a termination amount. The swap enabled MoDOT to lock-in long-term rates 13 months forward, to the expected bond issue date. Refer to Note 14 for subsequent event disclosure.

(A) Objective

The purpose of the swap agreement was to reduce the Commission's risk of variations in its debt service costs on a future bond issuance. The swap hedged the Commission against a rise in interest rates between the trade date of the swap and the issuance date of the bonds.

(B) Terms

Amount:	$400,000,000
Trade Date:	August 2, 2006
Effective Date:	September 4, 2007
Mandatory Early Termination Date:	September 4, 2007
Settlement Method:	Cash
MoDOT Pays:	4.2121%
MoDOT Receives:	SIFMA Index
Counterparties:	Merrill Lynch Capital Services (50%) Bear Stearns Financial Products (25%) Royal Bank of Canada (25%)

(C) Fair Value

The interest rate swap had a negative fair value as of June 30, 2007 of $4,521,074. This fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the transaction. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the SIFMA yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

(D) Risks

Credit risk: If the fair value of the outstanding swap was positive as of June 30, 2007, then the credit risk equals the amount of the swap's fair value. This amount would increase if interest rates increased in the future. However, if interest rates declined and the fair value of the swap became negative, the Commission would no longer be exposed to credit risk. The swap agreement contained a collateral agreement with the counterparty. The swap required collateralization of the fair value of the swap if the counterparties' credit ratings fell below the applicable thresholds in the agreement. Below are the credit ratings of the counterparties:

	Moody's/S&P
Merrill Lynch Capital Services	Aa3/AA-
Bear Stearns Financial Products	Aaa/AAA
Royal Bank of Canada	Aaa/AA-

Interest rate risk: A decline in interest rates between the issuance of the swap and the bond issue date would result in the Department incurring a termination expense.

Termination risk: The Commission or any of the counterparties could have terminated the swap if either the Commission or any of the counterparties failed to perform under the terms of the contract. If the swap had been terminated, the Commission's protection against increases in market interest rates would have no longer been in effect. If at the time of termination the swap had a negative fair value, the Commission would have been liable to the counterparty for a payment equal to the swap's fair value.

Market-access risk: If the Commission were to be unable to enter the credit markets when planned, expected cost savings of the swap may not have been realized.

Note 9: Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition, various lawsuits against the Department arise incident to the Department's normal operations. These risks have been classified as workers' compensation, vehicle liability, general liability, condemnation and inverse condemnation, contractor suits, employment suits, environmental regulatory liability, and levy and drainage district suits. It is the policy of the Department to manage its risks internally, with the exception of purchased earthquake and major building insurance policies.

(A) Workers' Compensation, Vehicle and General Liabilities

The Department sets aside assets for the settlement of workers' compensation, vehicle liability and general liability claims in an internal service fund, the MHTC Self-Insurance Fund. Section 537.610, RSMo limits the liability of the State and its public entities on claims within the scope of Sections 537.600 to 537.650 RSMo, except for those claims governed by the provisions of the Missouri Workers' Compensation Law, Chapter 287, RSMo. The limits were $2,369,306 and $2,303,326 for all claims arising out of a single accident or occurrence and $355,396 and $345,499 for any one person in a single accident or occurrence, at June 30, 2007 and 2006, respectively, as set by the Missouri Department of Insurance.

Workers' compensation, vehicle and general liabilities are reported based on actuarial calculations. Estimated pending self-insurance claims represents the expected losses to be realized on known claims pending. Estimated unreported claims represents expected losses or claims incurred but not reported. Liabilities for incurred losses related to workers' compensation and general and vehicle liability claims are reported at their discounted value, assuming an investment yield of 4 percent.

Changes in pending self-insurance claims and incurred but not reported claims for workers' compensation, vehicle and general liability during the past two years are as follows:

	Beginning Balance	Current Claims and Estimate Changes	Claim Payments	Ending Balance
2007	$ 55,856,546	$ 7,002,244	$ 11,544,238	$ 51,314,552
2006	$ 45,927,437	$ 26,706,895	$ 16,777,786	$ 55,856,546

(B) Other Claims

Claims for condemnation and inverse condemnation, contractor suits, levy and drainage district suits, environmental regulatory liability, and employment suits are paid from the State Road Fund. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As listed in Note 7, the Department has approximately $7,472,187 and $11,538,508 in claims and judgments payable at June 30, 2007 and 2006, respectively. The Department is involved in other such suits for which no liability has been recorded, as a probable loss has not occurred. The aggregate potential liability of all claims deemed probable or possible to result in a loss was estimated to be approximately $10,872,187 and $12,288,723 as of June 30, 2007 and 2006, respectively. These estimates are within a range of $5,091,051 to $34,054,455 and $8,970,004 to $38,129,578 as of June 30, 2007 and 2006, respectively.

Note 10: Insurance Plan

The MoDOT and Missouri State Highway Patrol (MSHP) Insurance Plan (the Medical and Life Insurance Plan) Internal Service Fund accounts for the medical coverage provided on a self-insured basis and life insurance benefits underwritten by a commercial insurance company. These benefits are available to employees, retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees of the Department, the Missouri State Highway Patrol, and the MoDOT and Patrol Employees' Retirement System. Changes to the plan are required to be approved by the Commission. Incurred but not reported claims of $11,000,000 and $9,561,000 were reported in the Medical and Life Insurance Plan as of June 30, 2007, and June 30, 2006, respectively.

Claims incurred but not reported represent estimated unreported claims. This liability is established from an actuarial report, which is based on data provided by the Department and claims administrators. Changes in this incurred but not reported claims liability during the past two years are as follows:

	Beginning Balance	Current Claims and Estimate Changes	Claim Payments	Ending Balance
2007	$ 9,561,000	$ 91,487,148	$ 90,048,148	$ 11,000,000
2006	$ 9,119,000	$ 83,792,155	$ 83,350,155	$ 9,561,000

Note 11: Defined Benefit Pension Plan

The MoDOT and Patrol Employees' Retirement System (MPERS) was established, and is administered by a board of trustees, in accordance with State statutes. As the plan includes employees outside of the Department, the MPERS is disclosed in accordance with the requirements of a cost-sharing, multiple-employer, public employee retirement plan. The MPERS provides retirement, death, and disability benefits to full-time employees (defined during fiscal year 2007 and 2006 as working at least 1,000 hours annually) with benefits vesting after five years of creditable service. Contributions to the MPERS for fiscal year 2007 and 2006 were 31.10 percent and 30.49 percent, respectively, of covered payroll. The Department made the required contributions of $80,949,952, $75,755,230, and $69,608,657 in 2007, 2006, and 2005, respectively. The MPERS' funded status ratio was 55.50 percent and 53.94 percent as of June 30, 2006 and 2005, respectively.

The MPERS' funding policy provides for actuarially determined and board approved, employer contributions using the entry-age normal cost method on a closed group basis, consisting of normal cost and amortization of any unfunded accrued liabilities over a closed 29-year period from July 1, 2007. (The amortization period will decrease by one year each year.) Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by State statute to be funded in advance. Employees do not contribute to the MPERS. Any amendments to the plan are established by changes in State statute.

The MPERS issues its own stand-alone financial report. Copies may be requested from the MoDOT and Patrol Employees' Retirement System, P.O. Box 1930, Jefferson City, Missouri 65102 or at www.mpers.org.

Note 12: Other Post-Employment Benefits

In addition to the pension benefits described above, the Department provides a portion of health care insurance, in accordance with Missouri state statutes, for its employees who retired from the Department with a minimum of 5 years of state service and who participate in the MoDOT and MSHP Medical and Life Insurance Plan. Premiums vary by coverage categories, which include retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees. Members contribute approximately 51.0 percent of the total premiums. The medical insurance rates, and employer and member contribution amounts, are recommended by the Medical and Life Insurance Plan's Board of Trustees and are approved by the Commission.

Costs are recognized on a pay-as-you-go basis, with the total post-employment benefit cost during fiscal year 2007 and 2006 of approximately $22.6 million and $16.9 million, respectively, net of member contributions. These other post-employment benefit costs are included in the Medical and Life Insurance Plan Internal Service Fund.

	2007			2006		
	MoDOT	MSHP	MPERS	MoDOT	MSHP	MPERS
Eligible and participating members	4,243	1,113	2	4,114	1,087	2
Member contributions	$ 9,229,925	$ 2,702,699	$ 5,676	$ 9,809,158	$ 2,792,980	$ 4,716
Employer contributions	$ 9,687,874	$ 2,794,256	$ 6,576	$ 9,578,268	$ 2,697,734	$ 4,055

Note 13: Commitments and Contingencies

(A) Unemployment Benefits

The Department is subject to the Missouri Employment Security Law. Department employees who qualify are entitled to benefit payments during periods of unemployment. The Department is required to reimburse the Division of Employment Security for benefit payments made to its former employees. The Department has identified no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to June 30, 2007 and 2006. Consequently, this potential obligation is not included in the accompanying basic financial statements. Total reimbursements made by the Department were $969,205 and $564,945 for fiscal year 2007 and 2006, respectively.

(B) Construction Commitments

Construction awards outstanding for both state and federal participating projects at June 30, 2007 and 2006 amounted to approximately $1,151,750,082 and $1,036,956,170, respectively. The federal portion of this total was $806,409,045 and $663,298,081, or approximately 70.02 percent and 63.97 percent, for 2007 and 2006, respectively.

(C) Equipment Purchase Commitment

The Department had $0 and $1,047,858 escrowed cash and investments to be used for the purchase of equipment under a lease-purchase agreement at June 30, 2007 and 2006, respectively.

(D) Operating Leases

The Department is committed under operating leases for buildings, as well as various office and maintenance equipment. Lease expenditures for the years ended June 30, 2007 and June 30, 2006 amounted to $3,364,998, and $3,610,584, respectively. Future minimum lease payments for these leases are as follows:

	2007	2006
Year ending:		
2007	$ ---	$ 1,522,025
2008	1,264,133	632,557
2009	134,908	95,813
2010	17,840	11,925
	$ 1,416,881	$ 2,262,320

(E) Federal Funding

The Department receives federal grants that are subject to review and audit by federal grantor agencies. This could result in requests for reimbursements by the grantor agency for any expenditures disallowed under grant terms. The Department believes such disallowances, if any, would be immaterial.

Note 14: Subsequent Events

On August 27, 2007, the Commission issued $526,800,000 in second lien state road bonds. These bonds bear interest, payable semiannually, from 4.00 percent to 5.25 percent, due in semiannual installments beginning May 1, 2009. The bonds are callable by the Department, subject to certain provisions. Proceeds will be used to finance certain construction and reconstruction costs of the state highway system, pursuant to the Smoother, Safer, Sooner road and bridge program. In conjunction with the bond sale, the scheduled settlement of the interest rate swap discussed in Note 8 resulted in a termination payment of $11,118,000 from bond proceeds.

Note 15: Future Accounting Pronouncement

The Department will implement GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in fiscal year 2008. This statement establishes new financial reporting and disclosure requirements for the Department, as an employer providing healthcare benefits to certain former employees. Under the new requirements, in addition to expanded note disclosure, the Department's financial statements will reflect the accrual of any unfunded actuarially determined Annual Required Contribution. For purposes of GASB 45 reporting, the Medical and Life Insurance Plan is considered an agent multiple-employer plan. The Plan's total actuarial accrued liability as of July 1, 2007 is estimated to be $935 million. The Statement allows prospective reporting, meaning beginning balances will not be restated.

This page intentionally left blank

Required Supplementary Information

Required Supplementary Information

Budgetary Comparisons – State Highways and Transportation Department Fund

Year Ended June 30, 2007
With Summarized Financial Information for 2006

	Budgeted Amounts			Variances Between Final Budget and Actual	
	Original	**Final**	**Actual**	**2007**	**2006**
Budgetary fund balance, beginning of year	$ 11,611,664	$ 11,611,664	$ 11,611,664	$ ---	$ ---
Resources (inflows)					
Fuel taxes	523,478,000	519,478,000	515,067,353	(4,410,647)	(43,536,543)
License, fees and permits	166,068,000	166,068,000	139,352,352	(26,715,648)	1,312,634
Vehicle sales and use taxes	46,474,000	46,474,000	51,143,793	4,669,793	(7,837,936)
Interest	1,945,000	1,945,000	3,894,754	1,949,754	1,726,000
Intergovernmental/cost reimbursements/miscellaneous	794,000	794,000	9,145,080	8,351,080	(1,322,601)
Federal government	---	---	---	---	(4,706,151)
Amount available for appropriation	750,370,664	746,370,664	730,214,996	(16,155,668)	(54,364,597)
Charges to appropriations (outflows)					
Appropriations spent by other state agencies	211,249,531	202,772,125	188,384,636	14,387,489	18,619,246
Total charges to appropriations	211,249,531	202,772,125	188,384,636	14,387,489	18,619,246
Transfers from MCS Federal Fund	65,000	65,000	65,000	---	---
Transfers to State Road Fund	(550,000,000)	(550,000,000)	(523,744,434)	26,255,566	138,011,477
Budgetary fund balance, end of year	$ (10,813,867)	$ (6,336,461)	$ 18,150,926	$ 24,487,387	$ 102,266,126

Required Supplementary Information

Budgetary Comparisons – State Road Fund

Year Ended June 30, 2007

With Summarized Financial Information for 2006

	Budgeted Amounts			Variances Between Final Budget and Actual	
	Original	Final	Actual	2007	2006
Budgetary fund balance, beginning of year	$ 329,179,183	$ 329,179,183	$ 329,179,183	$ ---	$ ---
Resources (inflows)					
Fuel taxes	113,000	113,000	92,863	(20,137)	(5,022)
License, fees, and permits	114,499,000	114,499,000	123,971,497	9,472,497	21,729,826
Vehicle sales and use taxes	152,368,000	152,368,000	140,506,035	(11,861,965)	(21,388,966)
Interest	14,774,000	14,774,000	32,602,082	17,828,082	12,145,106
Intergovernmental/cost reimbursements/miscellaneous	78,582,000	78,582,000	94,371,017	15,789,017	(5,664,802)
Federal government	832,984,000	832,984,000	807,349,904	(25,634,096)	64,960,011
Bond proceeds	800,000,000	800,000,000	829,993,881	29,993,881	10,174,879
Amount available for appropriation	2,322,499,183	2,322,499,183	2,358,066,462	35,567,279	81,951,032
Charges to appropriations (outflows)					
Administration					
Personal service	21,467,953	22,076,227	20,567,094	1,509,133	809,757
Fringe benefits	24,286,681	23,826,048	19,498,407	4,327,641	1,509,275
Expense and equipment	6,509,587	6,438,003	5,020,675	1,417,328	1,543,256
Maintenance					
Personal service	146,248,537	145,360,048	143,354,870	2,005,178	3,315,245
Fringe benefits	93,349,950	93,633,799	90,263,449	3,370,350	1,696,743
Expense and equipment	194,752,773	189,735,997	180,000,181	9,735,816	2,562,755
Motorist assist					
Personal service	1,915,542	1,915,542	1,862,110	53,432	68,846
Fringe benefits	1,255,671	1,255,671	1,171,103	84,568	85,410
Expense and equipment	436,036	441,220	424,101	17,119	67,400
Construction					
Personal service	89,971,788	90,660,428	85,533,386	5,127,042	3,632,194
Fringe benefits	48,779,797	49,027,173	45,328,788	3,698,385	2,735,168
Expense and equipment	28,407,041	30,247,665	27,492,202	2,755,463	4,109,615
Contracts	511,672,000	538,580,860	452,992,988	85,587,872	43,395,463
Right of way purchase	90,000,000	90,000,000	83,893,252	6,106,748	9,324,004
Program-bonds	800,000,000	800,000,000	843,977,198	(43,977,198)	---
Fleet, facilities, and information systems					
Personal service	15,823,615	15,742,789	15,231,597	511,192	918,946
Fringe benefits	8,690,150	8,666,041	8,299,119	366,922	606,067
Expense and equipment	91,588,452	90,176,065	84,492,704	5,683,361	9,546,965
Multimodal operations					
Personal service	300,765	344,887	323,573	21,314	4,358
Fringe benefits	139,103	159,629	126,802	32,827	3,267
Expense and equipment	169,897	182,224	163,792	18,432	9,041
Bond principal and interest payments	108,439,000	108,439,000	96,125,461	12,313,539	235,825
Total charges to appropriations	2,284,204,338	2,306,909,316	2,206,142,852	100,766,464	86,179,600
Transfers to Highway Safety Fund	---	---	---	---	(1)
Transfers from Highway Fund	550,000,000	550,000,000	523,744,434	(26,255,566)	(138,011,477)
Budgetary fund balance, end of year	$ 588,294,845	$ 565,589,867	$ 675,668,044	$110,078,177	$ 30,119,156

Required Supplementary Information

Budget Basis to GAAP Reconciliations and Disclosure

Years Ended June 30, 2007 and 2006

The following is a reconciliation of the difference between the State's budgetary basis and accounting principles generally accepted in the United States of America (GAAP) basis for 2007:

	State Highways and Transportation Department Fund	State Road Fund
Fund balance, budgetary basis	$ 18,150,926	$ 675,668,044
Receivables	107,174,802	67,978,715
Due from other funds	---	49,568
Inventories	---	40,365,535
Payables	(6,604,416)	(121,171,643)
Deferred revenues	---	(27,376,622)
Change in fair value of investments	(40,961)	(1,299,169)
Fund balance, GAAP basis	$ 118,680,351	$ 634,214,428

The following is a reconciliation of the difference between the State's budgetary basis and accounting principles generally accepted in the United States of America (GAAP) basis for 2006:

	State Highways and Transportation Department Fund	State Road Fund
Fund balance, budgetary basis	$ 11,611,663	$ 329,179,184
Receivables	109,471,576	83,182,425
Due from other funds	---	49,368
Inventories	---	37,672,733
Capital lease escrow	---	1,047,858
Payables	(7,812,548)	(137,380,398)
Deferred revenues	---	(30,584,608)
Change in fair value of investments	(131,772)	(3,784,829)
Fund balance, GAAP basis	$ 113,138,919	$ 279,381,733

Budgetary Principles and Presentation

The budgetary comparison schedules are presented on the State's budgetary basis of accounting. Under this basis, revenues are recognized when cash is received. Expenditures are recognized for cash disbursements made during the fiscal year and for adjustments made in the lapse period, as defined by the Office of Administration.

The legal authority for approval of the Department's budget and amendments for the State Highways and Transportation Department Fund rests with the State Legislature. The budgeted amounts lapse at the end of the lapse period. The Commission approves the State Road Fund budget and amendments. The fund level is the legal level of control for the State Road Fund. However, at any time, the Commission may approve the Department to spend more or less than the State Legislature or the fund level of the State Road Fund which will drive the Department's budget to be higher or lower than the other legal limits.

The Department develops its budget through processes involving the districts and the central office units. Upon Commission approval, the legislative budget request is sent to the Office of Administration on October 1, which is forwarded to the Governor's Office. The Governor develops a recommendation regarding the budget and forwards both the budget request and the recommendation to the Legislature. The Legislature generally acts on budget matters during January through May. The Governor has veto authority and generally acts on those matters in June. The Department distributes funds available internally based on district and the central office units' input and feedback. This is submitted to the Commission for approval.

Combining Financial Statements

Combining Balance Sheets

Nonmajor Governmental Funds

June 30, 2007

With Summarized Financial Information for 2006

	Multimodal Federal Fund and Missouri General Fund	State Transportation Fund	Aviation Trust Fund	State Transportation Assistance Revolving Fund	MCS Federal Fund
Assets					
Cash and cash equivalents	$ 589,409	$ 968,818	$ 15,139,114	$ 1,442,875	$ 9,679
State taxes and fees receivable	---	295,434	681,833	---	---
Miscellaneous receivables, net	212,907	193	167,591	22,202	---
Federal government receivable	5,234,683	---	---	---	177,967
Loans receivable	---	---	---	1,867,914	---
Total assets	$ 6,036,999	$ 1,264,445	$ 15,988,538	$ 3,332,991	$ 187,646
Liabilities					
Accounts payable	$ 5,470,463	$ 521	$ 812,468	$ ---	$ 95,541
Accrued payroll	23,277	8,752	26,476	---	---
Deferred revenue	81,456	---	---	---	---
Due to other funds	13,050	4,379	15,692	---	---
Total liabilities	5,588,246	13,652	854,636	---	95,541
Fund Balances					
Reserve for loans receivable	---	---	---	1,867,914	---
Unreserved, special revenue funds	448,753	1,250,793	15,133,902	1,465,077	92,105
Total fund balances	448,753	1,250,793	15,133,902	3,332,991	92,105
Total liabilities and fund balances	$ 6,036,999	$ 1,264,445	$ 15,988,538	$ 3,332,991	$ 187,646

Grade Crossing Safety Fund	Railroad Expense Fund	Highway Safety Fund	Motorcycle Safety Fund	Total 2007	Total 2006
$ 6,998,103	$ 239,985	$ 353,634	$ 276,689	$ 26,018,306	$ 23,994,954
62,116	---	---	---	1,039,383	1,818,990
10,745	---	---	---	413,638	94,572
---	---	1,481,112	---	6,893,762	8,768,330
---	---	---	---	1,867,914	2,135,030
$ 7,070,964	$ 239,985	$ 1,834,746	$ 276,689	$ 36,233,003	$ 36,811,876
$ 126,746	$ 2,275	$ 1,612,796	$ ---	$ 8,120,810	$ 10,004,107
---	21,378	19,755	---	99,638	92,106
10,664	104,374	---	---	196,494	2,841,496
---	14,534	1,913	---	49,568	49,368
137,410	142,561	1,634,464	---	8,466,510	12,987,077
---	---	---	---	1,867,914	2,135,030
6,933,554	97,424	200,282	276,689	25,898,579	21,689,769
6,933,554	97,424	200,282	276,689	27,766,493	23,824,799
$ 7,070,964	$ 239,985	$ 1,834,746	$ 276,689	$ 36,233,003	$ 36,811,876

Combining Statements of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2007
With Summarized Financial Information for 2006

	Multimodal Federal Fund and Missouri General Fund	State Transportation Fund	Aviation Trust Fund	State Transportation Assistance Revolving Fund	MCS Federal Fund
Revenues					
Fuel taxes	$ ---	$ ---	$ 313,396	$ ---	$ ---
Sales and use taxes	---	3,577,755	5,044,771	---	---
License, fees, and permits	---	---	---	---	---
Intergovernmental/cost reimbursements/miscellaneous	2,250,371	986	---	---	---
Investment earnings	---	8,509	785,593	130,944	---
Federal government	47,692,425	---	---	---	1,351,034
Total revenues	49,942,796	3,587,250	6,143,760	130,944	1,351,034
Expenditures					
Current					
Maintenance	---	---	---	---	1,326,924
Multimodal operations	61,112,788	2,662,987	5,391,117	---	---
Capital outlay	845,820	---	96,175	---	---
Other state agencies	---	---	47,675	6,955	---
Total expenditures	61,958,608	2,662,987	5,534,967	6,955	1,326,924
Excess of revenues over (under) expenditures	(12,015,812)	924,263	608,793	123,989	24,110
Other Financing Sources (Uses)					
Proceeds from the sale of capital assets	---	---	---	---	3,968
Transfers in (out)	---	---	---	---	(65,000)
Transfers related to state appropriations	12,282,754	---	---	---	---
Total other financing sources (uses)	12,282,754	---	---	---	(61,032)
Net Change in Fund Balances	266,942	924,263	608,793	123,989	(36,922)
Fund Balances, Beginning of Year	181,811	326,530	14,525,109	3,209,002	129,027
Fund Balances, End of Year	$ 448,753	$ 1,250,793	$ 15,133,902	$ 3,332,991	$ 92,105

Grade Crossing Safety Fund	Railroad Expense Fund	Highway Safety Fund	Motorcycle Safety Fund	Total 2007	Total 2006
$ ---	$ ---	$ ---	$ ---	$ 313,396	$ 322,296
---	---	---	---	8,622,526	9,423,089
1,506,013	758,939	---	378,125	2,643,077	2,507,413
---	---	1,694	184	2,253,235	2,248,577
4,103	---	---	---	929,149	551,246
---	---	31,555,511	---	80,598,970	61,629,930
1,510,116	758,939	31,557,205	378,309	95,360,353	76,682,551
---	---	30,039,813	372,603	31,739,340	24,654,287
1,066,542	640,210	---	---	70,873,644	60,450,818
---	---	---	---	941,995	53,160
13,422	12,444	---	4,906	85,402	78,758
1,079,964	652,654	30,039,813	377,509	103,640,381	85,237,023
430,152	106,285	1,517,392	800	(8,280,028)	(8,554,472)
---	---	---	---	3,968	12,950
---	---	---	---	(65,000)	(65,426)
---	---	---	---	12,282,754	11,452,521
---	---	---	---	12,221,722	11,400,045
430,152	106,285	1,517,392	800	3,941,694	2,845,573
6,503,402	(8,861)	(1,317,110)	275,889	23,824,799	20,979,226
$ 6,933,554	$ 97,424	$ 200,282	$ 276,689	$ 27,766,493	$ 23,824,799

Combining Statements of Net Assets

Proprietary Funds – Internal Service

June 30, 2007

With Summarized Financial Information for 2006

	MoDOT & MSHP Medical and Life Insurance Plan	MHTC Self-Insurance Plan	Total 2007	Total 2006
Assets				
Current assets				
Cash and cash equivalents	$ 3,906,250	$ ---	$ 3,906,250	$ 3,981,087
Investments	24,696,452	47,335,239	72,031,691	41,806,820
Prepaid expenses	---	116,999	116,999	---
Miscellaneous receivables	1,670,408	946,163	2,616,571	639,407
Total current assets	30,273,110	48,398,401	78,671,511	46,427,314
Noncurrent assets				
Investments	2,571,202	19,974,507	22,545,709	37,926,639
Restricted investments	100,000	200,000	300,000	300,000
Total noncurrent assets	2,671,202	20,174,507	22,845,709	38,226,639
Total assets	32,944,312	68,572,908	101,517,220	84,653,953
Liabilities				
Current liabilities				
Accounts payable	1,826,481	239,058	2,065,539	1,020,074
Deferred revenue	6,483,132	---	6,483,132	6,666,087
Pending self-insurance claims	---	10,138,000	10,138,000	10,779,000
Incurred but not reported claims	11,000,000	3,435,000	14,435,000	13,973,000
Total current liabilities	19,309,613	13,812,058	33,121,671	32,438,161
Noncurrent liabilities				
Pending self-insurance claims	---	28,191,552	28,191,552	28,854,416
Incurred but not reported claims	---	9,550,000	9,550,000	11,811,130
Total noncurrent liabilities	---	37,741,552	37,741,552	40,665,546
Total liabilities	19,309,613	51,553,610	70,863,223	73,103,707
Net Assets				
Restricted net assets	100,000	200,000	300,000	300,000
Unrestricted net assets	13,534,699	16,819,298	30,353,997	11,250,246
Total net assets	$ 13,634,699	$ 17,019,298	$ 30,653,997	$ 11,550,246

Combining Statements of Revenues, Expenses And Changes in Net Assets (Deficit)

Proprietary Funds – Internal Service

Year Ended June 30, 2007

With Summarized Financial Information for 2006

	MoDOT & MSHP Medical and Life Insurance Plan	MHTC Self-Insurance Plan	Total 2007	Total 2006
Operating Revenues				
Self-insurance premiums				
Highway workers' compensation	$ ---	$ 11,959,200	$ 11,959,200	$ 10,872,000
Highway patrol workers' compensation	---	3,000,000	3,000,000	6,948,238
Highway fleet vehicle liability	---	1,702,812	1,702,812	1,547,998
General liability	---	10,444,800	10,444,800	5,871,108
Medical insurance premiums				
State	66,774,196	---	66,774,196	64,990,190
Member	25,368,868	---	25,368,868	26,216,354
Other	4,791,817	588,885	5,380,702	2,514,097
Total operating revenues	96,934,881	27,695,697	124,630,578	118,959,985
Operating Expenses				
Self-insurance programs				
Highway workers' compensation	---	2,639,125	2,639,125	6,468,409
Highway patrol workers' compensation	---	(355,629)	(355,629)	2,588,673
Highway fleet vehicle liability	---	1,376,962	1,376,962	1,353,873
Highway general liability	---	3,341,786	3,341,786	16,007,810
Other	---	851,329	851,329	968,552
Medical and life insurance program				
Insurance premiums	6,836,963	---	6,836,963	5,434,594
Medical benefits	73,361,977	---	73,361,977	67,121,510
Prescription drug benefits	18,125,171	---	18,125,171	16,670,645
Professional fees	1,424,310	---	1,424,310	1,188,620
Administrative services	2,874,356	---	2,874,356	2,468,332
Other	19,023	---	19,023	68,020
Total operating expenses	102,641,800	7,853,573	110,495,373	120,339,038
Operating income (loss)	(5,706,919)	19,842,124	14,135,205	(1,379,053)
Nonoperating Revenues				
Net appreciation and investment income	1,806,677	3,161,869	4,968,546	2,271,624
Total nonoperating revenues	1,806,677	3,161,869	4,968,546	2,271,624
Change in Net Assets	(3,900,242)	23,003,993	19,103,751	892,571
Net Assets (Deficit), Beginning of Year	17,534,941	(5,984,695)	11,550,246	10,657,675
Net Assets, End of Year	$ 13,634,699	$ 17,019,298	$ 30,653,997	$ 11,550,246

Combining Statements of Cash Flows

Proprietary Funds – Internal Service

Year Ended June 30, 2007

With Summarized Financial Information for 2006

	MoDOT & MSHP Medical and Life Insurance Plan	MHTC Self-Insurance Plan	Total 2007	Total 2006
Cash Flows From Operations Activities				
Receipts from interfund services provided	$ 95,619,133	$ 27,435,477	$123,054,610	$119,097,934
Payments for interfund services used	(97,068,066)	(11,544,238)	(108,612,304)	(105,316,311)
Payments to suppliers	(3,486,023)	(754,529)	(4,240,552)	(4,938,741)
Net cash provided by (used in) operating activities	(4,934,956)	15,136,710	10,201,754	8,842,882
Cash Flows From Investing Activities				
Proceeds from sale and maturities of investments	183,131,393	103,257,241	286,388,634	372,404,414
Purchase of investments	(177,709,628)	(121,919,981)	(299,629,609)	(402,949,247)
Interest received	1,093,531	1,964,526	3,058,057	1,936,522
Investment fees	(32,649)	(61,024)	(93,673)	(53,715)
Net cash provided by (used in) investing activities	6,482,647	(16,759,238)	(10,276,591)	(28,662,026)
Net increase (decrease) in cash and cash equivalents	1,547,691	(1,622,528)	(74,837)	(19,819,144)
Cash and Cash Equivalents, Beginning of Year	2,358,559	1,622,528	3,981,087	23,800,231
Cash and Cash Equivalents, End of Year	$ 3,906,250	$ ---	$ 3,906,250	$ 3,981,087
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	$ (5,706,919)	$ 19,842,124	$ 14,135,205	$ (1,379,053)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Receivables	(1,315,748)	(260,220)	(1,575,968)	137,949
Prepaid expenses	---	(116,999)	(116,999)	---
Accounts payable	2,270,666	(4,328,195)	(2,057,529)	10,125,892
Deferred revenue	(182,955)	---	(182,955)	(41,906)
Net cash provided by (used in) operating activities	$ (4,934,956)	$ 15,136,710	$ 10,201,754	$ 8,842,882
Noncash Items Impacting Recorded Assets				
Increase in fair value of investments	$ 655,411	$ 943,648	$ 1,599,059	$ 127,876

Combining Statements of Assets and Liabilities

Fiduciary Funds – Agency

June 30, 2007

With Summarized Financial Information for 2006

	Local Fund	MCS Agency Fund	Total 2007	Total 2006
Assets				
Cash and cash equivalents	$ 1,476,848	$ 11,749,973	$ 13,226,821	$ 1,465,443
Investments	19,675,200	---	19,675,200	16,192,547
Accounts receivable	---	---	---	2,730,924
Other	130,083	1,082,546	1,212,629	686,010
Total assets	$ 21,282,131	$ 12,832,519	$ 34,114,650	$ 21,074,924
Liabilities				
Due to other governments	$ ---	$ 12,832,519	$ 12,832,519	$ 11,645,683
Advances from other governments	21,282,131	---	21,282,131	9,429,241
Total liabilities	$ 21,282,131	$ 12,832,519	$ 34,114,650	$ 21,074,924

This page intentionally left blank